Влада на Република Северна Македонија
Government of the Republic of North Macedonia

2027 - 2031 FISCAL STRATEGY OF THE REPUBLIC OF NORTH MACEDONIA

Skopje, April 2026

Summary of 2027 – 2031 Fiscal Strategy of the Republic of North Macedonia

Fiscal Strategy is a document prepared on the basis of the Organic Budget Law, including medium-term fiscal policy guidelines and objectives, baseline macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections over the next 5-year period.

The Fiscal Strategy reflects a systematic and medium-term approach to managing public finances, focused on safeguarding macroeconomic stability, ensuring public debt sustainability, and underpinning economic growth. This Fiscal Strategy is adopted amid heightened external risk and a crisis in oil and oil derivatives, which are exerting additional fiscal pressures on the Budget, the business sector and the living standard of the citizens.

Main objectives of the medium-term fiscal framework are the following:

- ensuring sustainable and stable public finances over the medium and long run,
- pursuing gradual and accountable fiscal consolidation by reducing the budget deficit,
- preserving macroeconomic and financial stability amidst energy and price volatility, as well as
- creating conditions for sustainable economic growth, while strengthening the economy's resilience to future crises.

Government's Fiscal Strategy rests upon the following key principles:

- fiscal accountability and discipline - planning and employing the public funds within realistic and sustainable fiscal capacity,
- gradual and predictable implementation of the fiscal consolidation, without abrupt restrictions that could trigger economic shocks,
- social fairness - safeguarding the most vulnerable categories of citizens from the adverse effects of the crisis and the fiscal adjustments, as well as
- transparency and accountability - clearly defined measures and mechanisms for monitoring and reporting.

Through clearly defined objectives, principles, and measures, the adopted Government Fiscal Strategy, provides for a balanced approach to addressing the ongoing fiscal and economic challenges. The commitment to fiscal consolidation serves as the cornerstone in safeguarding stability and ensuring sustainable and inclusive economic growth. Thereby, budget deficit is reduced as a percentage share of GDP, declining from 3.5% in 2027, to 3% in 2028, reaching 2.8% in 2029, 2030 and 2031.

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Pursuant to paragraph 5, Article 17 of the Organic Budget Law ("Official Gazette of the Republic of North Macedonia", nos. 203/22, 59/23, 277/23, 39/24, 76/24, 272/24 and 258/25), Government of the Republic of North Macedonia, at its session held on ____ April 2026, adopted the 2027 – 2031 Fiscal Strategy of the Republic of North Macedonia.

Introduction

The medium-term Fiscal Strategy, covering a five-year period, stands as the cornerstone document for public finance planning and management, aimed at ensuring fiscal sustainability, maintaining macroeconomic stability and supporting long-term economic growth. The Strategy covers the medium-term period, factoring in current economic risks, including the ongoing crisis in oil derivatives, as well as the expected pace of economic activity.

Fiscal policy in this period will be oriented towards balancing the need for fiscal consolidation with the necessity of preserving the economic activity and the social security of the citizens.

Strategic objectives of the fiscal policy over the forthcoming five-year period are:

-gradually reducing the budget deficit and stabilising the public debt at a sustainable level,

-strengthening the fiscal discipline and increasing the efficiency in public finance management,

-mitigating short- and medium-term effects of the oil derivatives crisis, as well as

-ensuring fiscal space for capital investments that foster economic growth.

Key elements of the medium-term fiscal policy comprise disciplined fiscal policy, reduced informal economy and higher budget revenue collection, as well as fiscal consolidation.

In the period 2027 - 2031, tax policy will focus on reducing grey economy and enhancing budget revenue collection. In fact, the objective is to reduce grey economy by advancing digitalisation and establish an efficient tax system, all to the end of ensuring that everyone pays its fair share of tax in a just manner.

Public debt management policy will focus on ensuring the funds necessary to cover the budget deficit, repay the due liabilities on the basis of prior borrowings and finance projects, while preventing debt from rising to a level that could jeopardise the country's economic stability and growth.

1. Macroeconomic Trends and Forecasts

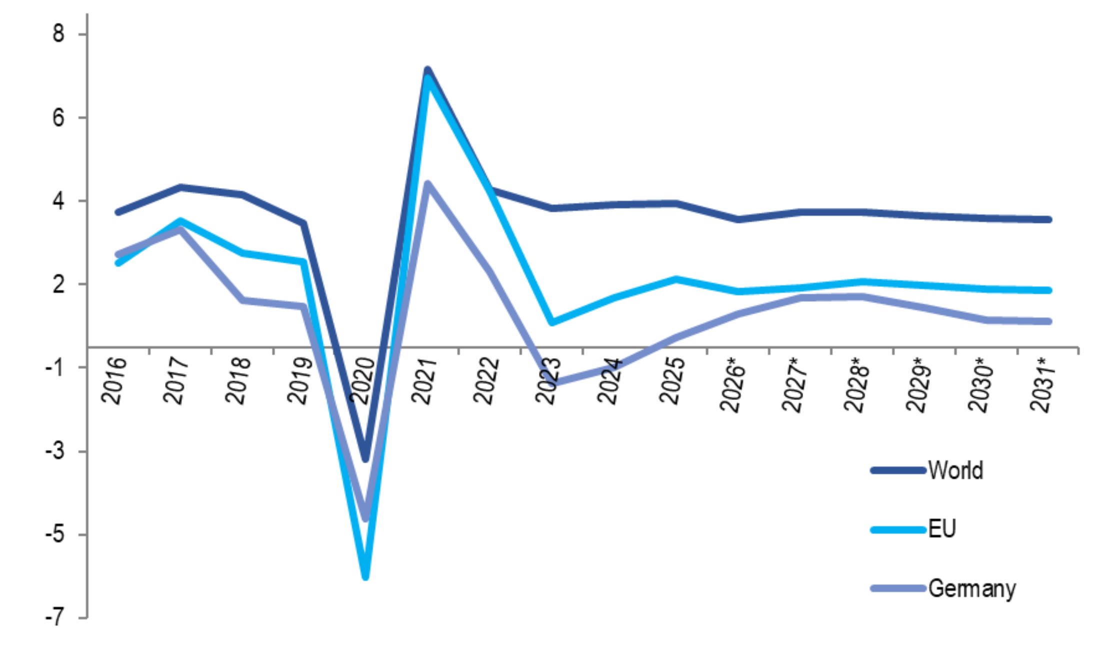
1.1 International Economic Trends and Forecasts[1]

In 2025, the global economy faced headwinds from the higher trade barriers. Yet, it proved resilient, with performance exceeding earlier expectations and leading to an upward revision of the projections. In 2026, the world faced yet another shock, this time by the outbreak of the war in the Middle East at the end of February, through its impact on commodity markets, inflation expectations and financial conditions. On the upside, the impact of AI-related investments is substantial. The global economic impact will crucially depend on the conflict's duration, intensity and scope, which are inherently unpredictable. Considering the economic performance this year will substantially depend on the war in the Middle East, the course of which is extremely difficult to predict, instead of the traditional baseline, the IMF has presented multiple scenarios depending of the duration of this conflict.

Under the reference forecast, predicated on the assumption that the war will have limited duration, intensity and scope and will fade by mid-2026, global growth is projected to be 3.1% in 2026 and 3.2% in 2027, slower than the growth pace in the past two years and slower than the average in the 2010 - 2019 period. Compared to the forecasts in the January 2026 WEO, the forecast for 2026 is revised downward by 0.2 p.p. and that for 2027 is unchanged. It is important to indicate that absent the war, global growth would have been revised upward, hence the downward revision largely reflects the disruptions from the conflict in the Middle East. Cumulatively, growth is projected at 3.1% in the period 2026 - 2031.

In addition to the reference forecast, IMF analysed alternative scenarios as well. Under the first alternative scenario with large and more persistent increases in energy prices, global growth would slow further to 2.5% in 2026 and inflation would reach 5.4%. Under a more severe scenario in which there is more damage to energy infrastructure in the conflict region, global growth would be cut to only about 2%. Thereby, the impact on emerging market and developing economies would be almost twice that on the advanced economies.

Chart 1: Economic Growth(%)



Source: IMF, World Economic Outlook, April 2026 (* forecast)

[1] Analysis of this section is based upon the International Monetary Fund Report "World Economic Outlook", published in April 2026.

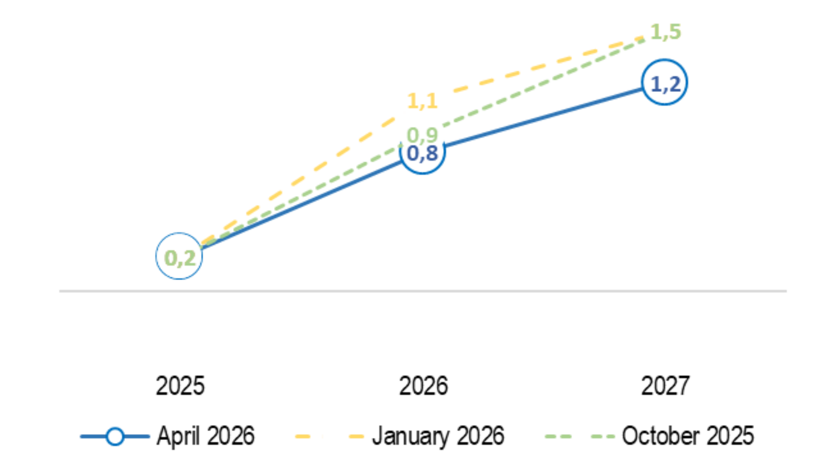
Table 1. Macroeconomic Indicators – Global Economic Environment

	2024	2025	2026*	2027*	2028*	2029*	2030*	2031*
Real GDP Growth (in %)								
World	3,4	3,4	3,1	3,2	3,2	3,2	3,1	3,1
Developed economies	1,8	1,9	1,8	1,7	1,7	1,6	1,5	1,5
Eurozone	0,9	1,4	1,1	1,2	1,4	1,2	1,1	1,1
EU	1,2	1,6	1,3	1,4	1,6	1,5	1,4	1,4
Emerging markets and developing economies	4,5	4,4	3,9	4,2	4,2	4,1	4,0	4,0
Average consumer prices (%)								
World	5,8	4,1	4,4	3,7	3,4	3,2	3,2	3,2
Developed economies	2,6	2,5	2,8	2,2	2,1	2,1	2,1	2,1
Eurozone	2,4	2,1	2,6	2,2	2,1	2,0	2,0	2,0
EU	2,5	2,5	2,8	2,4	2,4	2,1	2,1	2,1
Emerging markets and developing economies	8,0	5,2	5,5	4,6	4,1	3,9	3,9	3,9
Global trade growth (%)	3,7	5,1	2,8	3,8	3,2	3,1	3,0	2,9
Unemployment rate (%)								
Developed economies	4,6	4,7	4,8	4,7	4,5	4,4	4,4	4,4
Eurozone	6,4	6,3	6,2	6,1	6,0	5,9	5,9	5,9

Source: IMF, World Economic Outlook, April 2026 (* projections)

Under the reference forecast, growth in the **advanced economies** is projected to be 1.8% in 2026 and 1.9 in 2027, with the forecast remaining unchanged compared to that in the January 2026 WEO.

Chart 2. GDP Growth (%) in Germany



Source: IMF, World Economic Outlook, April 2026

Growth in the **euro area** is expected to decline from 1.4% in 2025 to 1.1% in 2026, before slightly increasing to 1.2% in 2027, with the 2026 and 2027 forecasts being revised downward by 0.2 p.p. compared to January 2026 WEO. These developments are a result of rising geopolitical uncertainty, higher energy prices and tighter financial conditions, all of which are weighing on the economic activity. At the same time, an increase in fiscal spending fueled stronger activity in Germany, helping growth in the euro zone (excluding Ireland) accelerate to around 1.5%. Still, according to IMF' April forecasts, Germany's economy is expected to expand by 0.8% in 2026, dropping by 0.3 p.p. relative to January 2026 WEO, with the 2027 forecast revised downward by 0.3 p.p. to 1.2%.

In the **United States**, growth is revised downward by 0.1 p.p. to 2.3% in 2026 and projected at 2.1% in 2027, revised upward by 0.1 p.p., with the economic activity supported by relatively strong private consumption and stable labour market, though limited by the tighter financial conditions and the increased uncertainty related to the global economic and geopolitical developments.

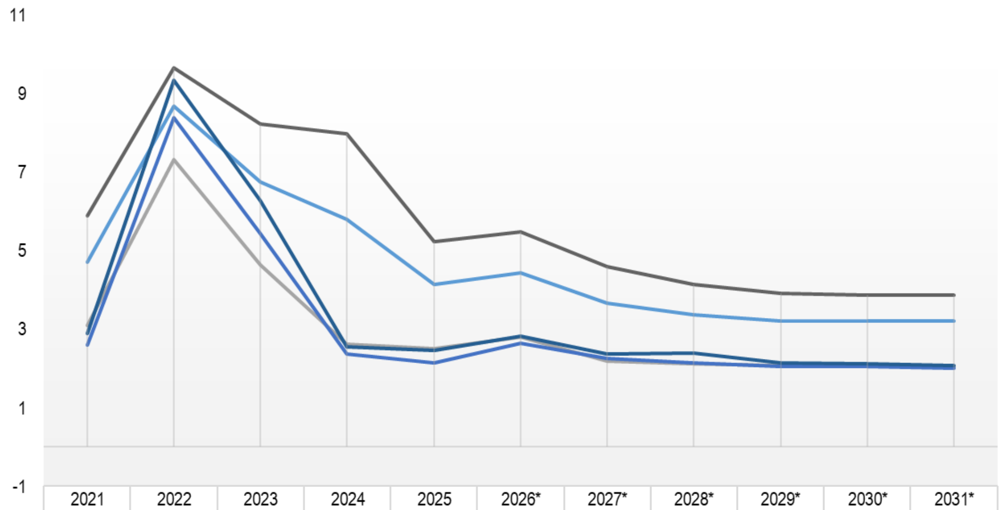
In **emerging market and developing economies**, growth is expected to fall to 3.9% in 2026 (0.3 p.p. downward revision relative to the January 2026 WEO) and recover to 4.2% in 2027 (0.1 p.p. upward revision). Such slowdown is mainly due to weaker external demand, higher financing costs and raising global uncertainty, as well as lingering geopolitical tensions and fragmentation of the global trade.

Growth in **China** for 2026 is revised downward to 4.9% in 2026 (by 0.1 p.p. lower relative to January), with the forecast for 2027 remaining unchanged at 4.8%, whereby slowdown in the housing sector, moderate domestic demand and structural headwinds related to demographics and productivity continue to weigh on the pace of economic activity.

Global headline inflation is expected to temporarily pause its decline. Headline inflation will increase from 4.1% in 2025 to 4.4% in 2026 before falling back to 3.7% in 2027. This is a 0.6 p.p. upward revision, reflecting expected higher energy and food prices. There is divergence across countries, shaped by the stubborn dynamics in services inflation and the increasing share of inflation explained by country-specific factors. In the euro area, headline inflation is projected to increase temporarily to above 2% in 2026 and remain above target in 2027, while core inflation is expected to degrease more gradually.

In addition to the IMF's reference forecast envisaging stabilisation of the inflation, the alternative scenarios related to escalation of the conflict and disruption on the energy markets, IMF envisages the following: under the adverse scenario, with larger and more persistent increases in energy prices, global inflation would reach 5.4% in 2026, while under a more severe scenario, with more damage to energy infrastructure, headline inflation would be just above 6% by 2027. Under both scenarios, inflationary pressure will be more pronounced in the developing countries, particularly among the energy exporters.

Chart 3. Inflation (%)

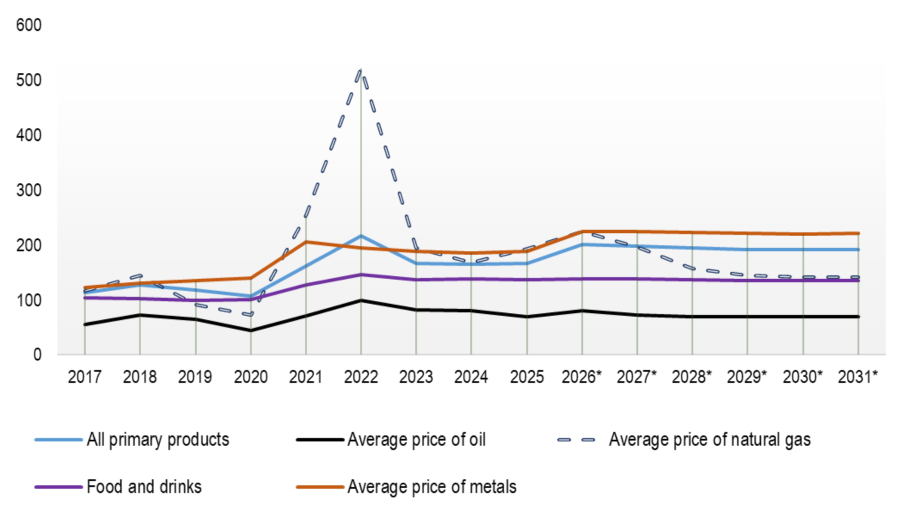


	2021	2022	2023	2024	2025	2026*	2027*	2028*	2029*	2030*	2031*
World	4,7	8,7	6,7	5,8	4,1	4,4	3,7	3,4	3,2	3,2	3,2
Developed economies	3,1	7,3	4,6	2,6	2,5	2,8	2,2	2,1	2,1	2,1	2,1
Eurozone	2,6	8,4	5,4	2,4	2,1	2,6	2,2	2,1	2,0	2,0	2,0
EU	2,9	9,3	6,3	2,5	2,5	2,8	2,4	2,4	2,1	2,1	2,1
Developing economies	5,9	9,7	8,2	8,0	5,2	5,5	4,6	4,1	3,9	3,9	3,9

Source: IMF, World Economic Outlook, April 2026 (* forecast)

Prices of **primary commodities** in 2026 are substantially revised upward in relation to previous projections, largely reflecting the geopolitical tensions, notably in the Middle East, which disrupt the supply chains and heighten uncertainty. These developments are driving up energy, transportation and production costs, with spillovers to other raw materials. General risks to prices remain tilted to the upside, especially if the conflicts continue. Energy commodities and food exhibit heightened volatility, with temporary price surges driven by the geopolitical tensions and the supply constraints. Still, in the course of 2027, gradual stabilisation is expected, as a result of normalisation of the market conditions and stronger global supply. Prices of energy commodities are expected to rise by 19% in 2026, as opposed to the small decline projected in the October 2025 WEO.

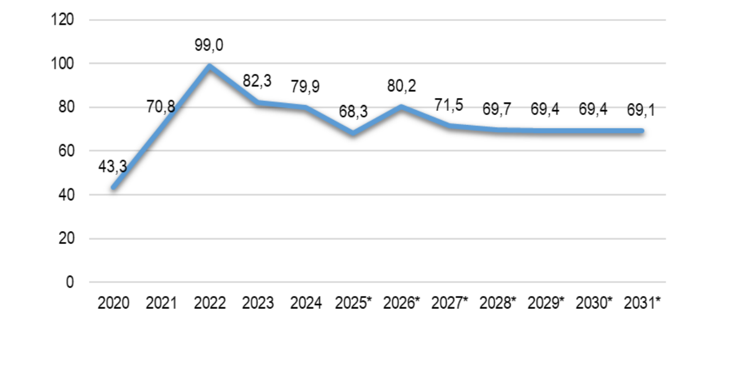
Chart 4. Commodity Prices (Index 2016=100)



Source: IMF, World Economic Outlook, April 2026 (* forecast)

Oil prices are expected to increase by 21.4% on account of disruptions to production and transportation in the Middle East, corresponding to the average oil price of around $82 per barrel. Substantial oil price spikes are being driven by production and transportation interruptions, including the disruption of the main routes, such as the Strait of Hormuz.

Chart 5. Oil Price in US$



Source: IMF, World Economic Outlook, April 2026 (* forecast)

Natural gas prices are expected to be affected more than oil prices, because of the technical complexity of restarting production and comparatively lower level of reserves.

Food prices are expected to increase as well, more that projected, on account of higher energy and fertiliser prices, disrupted shipping routes and increased transportation costs.

Metal prices have gone up strained by limited supply and strong demand. Prices of base metals have picked up as a result of the supply disruption in mining, with the demand in the industrial sectors remaining stable. Prices of precious metals surged at first as investors sought safe haven assets, however, upward revisions to interest rate expectations and a stronger dollar triggered partial corrections. On the other hand, **rare earth elements** market is highly concentrated, particularly in China, creating strategic risks to global supply chains. These materials are essential for electronics, cars and green energy, hence shortage in rare earth elements can impose sizable economic losses.

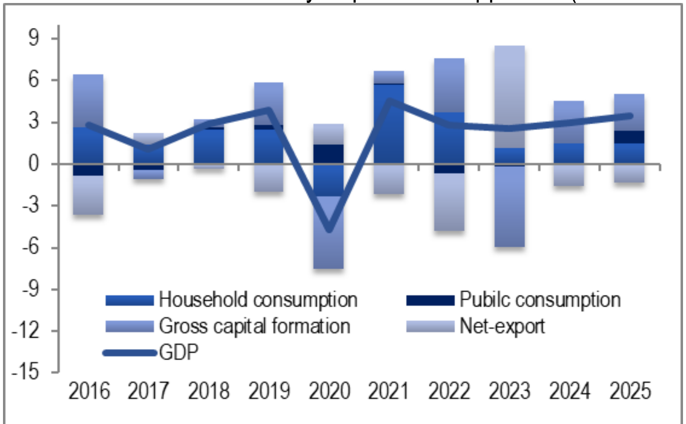
Risks to global economic growth are firmly downside, most notably those related to intensified geopolitical tensions, especially in the Middle East. This could lead to higher prices of raw materials, disrupted supply chains and heightened inflationary pressures, in particular on food and energy, with adverse effects on real income, increasing poverty and exacerbating external imbalances, notably in the developing economies. Additional risk is posed by reevaluation of profit expectations regarding artificial intelligence, which could lead to a decline in investments and economic activity, as well as increased protectionism and disrupted trade in critical raw materials. On the other hand, there are upside risks as well, such as acceleration in the adoption of AI, continued structural reforms and improved business climate, which could boost productivity and growth. Additional impetus could arise from easing the trade barriers and ensuring greater predictability of economic policies.

1.2 Recent Economic Developments

Domestic economy in 2025 accelerated, recording real growth of 3.5%, being in line with the Ministry of Finance's projections. Growth was more pronounced in the second half of the year, rising to 3.8% from 3.2% in the first half, underscoring stronger momentum and a positive trend in economic activity.

Analyzed by the expenditure side of GDP, strengthened economic performance was supported by domestic demand amid scaled-up gross investments and moderate rise in final consumption, while net export had a negative contribution to growth. Gross investments recorded a robust increase of 8.0% in real terms. The rise on gross investments stemmed from accelerated implementation of strategic infrastructure projects, including Corridors 8 and 10d, coupled with increased investment activity of the domestic private sector. Investment activity was supported by the great absorption of Government's favourable credit lines, as well as the stronger support by the municipalities for implementation of capital projects. Furthermore, positive trends in gross investments were underpinned by the increased investments in fixed assets, in particular via import of machinery and equipment (2.9%) and capital goods (2.1%). Increased import of intermediary goods (4.1%) contributed to rise in inventories, having a positive effect on gross investments, above all as a result of the higher import of processed industrial supplies (5.6%) and transport equipment, parts and accessories (18%). Final consumption grew by 2.7% in real terms. Thereby, private consumption recorded a moderate growth of 2.1%, driven by higher household disposable income, stemming from increased employment, rise in wages and pensions, as well as increased crediting to households. Public consumption grew by 5.3% in real terms on annual basis. Foreign trade recovered in 2025 following its sustained decline in 2024, with trade increasing, and real export and import of goods and services rising by 6.1% and 6.7% year-on-year, respectively. These trends signal a gradual rebound in international trade and stronger demand across foreign and domestic markets. As import outpaced export, net import had a negative contribution to the economic activity, while the trade deficit widened by 7.8% relative to the previous year.

Chart 6. Economic Growth by Expenditure Approach (contribution to growth, p.p.)



Source: State Statistical Office and calculations of Ministry of Finance

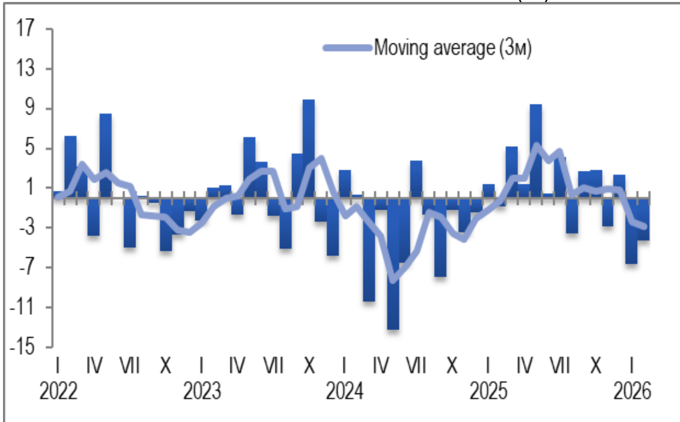
Analyzed by sectors, economic growth in 2025 was a result of the positive performance in all sectors, with the services sector and the construction activity contributing the most thereto. Construction activity registered a two-digit growth of 13.7% in real terms, mainly driven by civil engineering structures surging by 19.3%, reflecting intensified investments and accelerated progress on infrastructure projects, especially along Corridors 8 and 10d. Growth was further supported by specialised construction works, with the activity increasing to three times their previous year's level, while activity in building construction dropped by 2.6%. Activities in the services sector surged by 3.0% in real terms, with growth recorded across all activities within the sector, and trade, transport and hospitality industry contributed the most thereto, picking up by 4.1%. The agriculture and the industrial sectors registered real growth of 2.5% and 1.8% respectively.

Chart 7. Economic Growth Structure by Production Approach (contribution to growth, p.p.)

Source: State Statistical Office and calculations of Ministry of Finance

According to **high-frequency data**, industrial production dropped by 5.3% in the period January - February 2026 relative to the same period in 2025, due to declined activity across all sectors, with Manufacturing having the highest negative contribution to the overall decline. Total industry turnover fell by 3.7%, reflecting the unfavourable trends in the key industrial sectors. From market structure point of view, domestic market turnover declined by 2.4%, indicating a moderate weakening of the domestic demand, while foreign market turnover dropped more sharply by 4.1% as a result of the weaker external demand and the impact of the adverse external economic factors. Over the same period, export and import of goods rose by 2.4% each, whereby as a result of the faster growth of import in absolute terms, trade deficit increased by 2.5%. Overall domestic trade dropped by 8.4% in nominal terms, amid decline in wholesale trade and trade in motor vehicles by 19.7% and 3.8% respectively, while retail trade rose by 6.2%. As regards the hospitality sector, during January - February 2026, total number of tourists grew by 6.0%, with both domestic and foreign tourists contributing, though foreign tourists had a stronger impact. Meanwhile, overnight stays fell by 1.6% across both categories. In January 2026, hospitality turnover registered a 10.0% year-on-year increase. Number of issued building permits in the first two months in 2026 decreased by 15.1%, as a result of decline of activity in civil engineering structures and reconstruction, while activity in building construction recorded an increase. Completed construction works rose by 1.8% in real terms, driven by the notable 21.6% increase in civil engineering structures and the positive contribution of specialised construction works, while activity in building construction declined.

Chart 8. Annual Growth of Industrial Production (%)

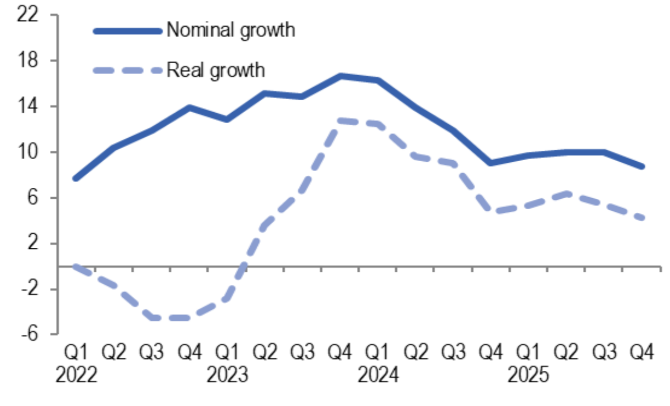


Source: State Statistical Office

The pick up in economic activity also had a positive effect on the **labour market** and employment. Hence, the number of employed persons in 2025 increased by 1.5% compared to the same period last year, being the strongest increase of employment in the last six years. Importantly, number of employed persons rose in absolute terms to 704,617, an increase of more than 10,000 compared to the previous year. Employment increased for a second year in a row, after having declined for four consecutive years. Employment rate rose to 46.4%, being an increase of 0.6 p.p.. At the same time, unemployment rate in 2025 stood at 11.5%, continuing its long-standing downward trend. Unemployed persons totaled 91,782, declining by 6.6% (6,491 persons) in relation to 2024. Youth unemployment (aged 15 - 29) continued its downward trajectory, standing at 23.0% in 2025, declining by almost twice over the last decade. It is important to note that active population increased for the second consecutive year, reaching 796,399 persons, after having declined almost continuously in prior years. In 2025, average net wage increased significantly by

9.6% compared to 2024, being higher by 5.3% in real terms. Increase of net wage was registered across all sectors, the highest being observed in Education, Health and Administrative and support service activities. Wages continued their upward trend in the first two months of 2026, increasing by 7.7%.

Chart 9. Average Net Wage Growth (%)



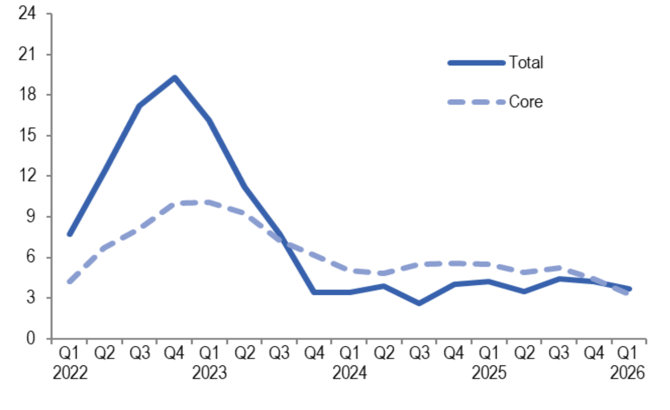
Source: State Statistical Office

In 2025, **inflation** rose to 4.1% (up from 3.5% in 2024), with the core inflation, at 5%, accounting for the most of the price increase, which reflects strong and persistent domestic price pressures. Rising food prices also contributed significantly to the inflation trends, surging by 4.4%. This increase was partially contained with the introduction of the Government's measures applied in March and April, aimed at capping the profit margins for basic food products. Energy prices exerted only a modest influence (rising 0.9%), while decline in liquid fuel prices (by 4.8%) further eased overall price pressures.

Average inflation rate in Q1 2026 stood at 3.7% on annual basis. Following the initial downward trend in the first two months in 2026, prices picked up again in March, with food prices as the primary driver. The rise reflected, in part, the lower comparative base created by last year's measures aimed at capping the profit margins for food products and the effects of the ongoing geopolitical developments. Cumulatively, across the first quarter of 2026, food and energy prices went up by 5.0% and 1.7% respectively, while fuel prices dropped by 2.8%.

Inflation rate in March 2026 stood at 4.9% on annual basis, recording a notable acceleration compared to the previous month (2.9% in January 2026). March inflation uptick was driven by a pronounced surge in prices of the food component, while the core inflation recorded a moderate increase.

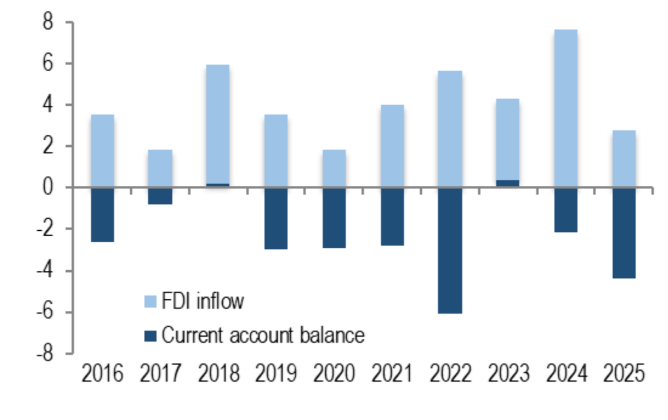
Chart 10. Headline and Core Inflation (%)



Source: State Statistical Office and calculations of Ministry of Finance

Deficit in the amount of EUR 738 million (4.4% of GDP) was recorded on the balance of payments' **current account** in 2025. Deficit widened twofold relative to 2024, mostly as a result of the increased deficit at the trade of goods (by 8.9%) and the decline in remittances (by 4.9%). Adverse developments were also observed in services, with the surplus contracting by 3.5%, partly reflecting the outflows for construction services linked to Corridors 8 and 10d. The primary income account likewise recorded a 1.3% widening of its deficit.

Chart 11. Current Account Balance and FDI Inflow (% of GDP)



Source: NBRNM and calculations of Ministry of Finance

Following the record-high level of **foreign direct investments** in 2024, inflows slowed down in 2025, bringing FDIs to EUR 468 million (or 2.8% of GDP). However, the decline in FDIs was solely attributable to substantial transfers abroad among related entities, while equity and reinvested profit amounted to EUR 584 million, increasing by 10.3%.

Reserve assets recorded an annual decline of 2.1% at the end of December 2025, reaching EUR 4.9 million, providing for 4.8-month coverage of import of goods and services, thus being at an adequate level. At the end of March 2026, reserve assets surged by 9.6% on annual basis, amounting to EUR 5.2 billion.

National Bank continued its prudent stance in conducting the monetary policy, highlighting the need to achieve sustainable stabilisation of inflation. In December 2025, the National Bank introduced a **new operational monetary framework**, designating 7-day central bank bills with a 4% interest rate as the primary monetary policy instrument, replacing the previous instrument with a seven-week maturity and a 5.35% interest rate.

In March 2026, total **credits** grew by 13.1% on annual basis, amid growth of both credits to enterprises and credits to households by 15.0% and 11.5% respectively. Total deposit potential in March 2026 grew by 11.3% on annual basis, with deposits of households increasing by 11.0% and deposits of enterprises picking up by 13.7%. In March 2026, savings in domestic currency grew by 14.2% on annual basis.

1.3 Medium-Term Macroeconomic Projections

Persistent global uncertainties, especially heightened by the Middle East war, pose a major challenge to short- and medium-term projections, given the region's critical role in global energy market, and subsequently in energy prices and availability, as well as their impact on other commodities and global supply chains. Under the reference forecast, the war will have limited intensity and duration through mid-2026, with energy prices, especially oil prices, seeing no further increase and stabilizing though at markedly higher level than before. In terms of the external environment, the IMF's reference forecast suggests that the shock will exert only limited effects on the economic activity, especially among the major trading partners, with growth expectations moderately revised downward. As for the domestic factors, implementation of policies and measures set out in the Work Programme of the Government will proceed, ensuring consistency in economic and fiscal policy over the medium term.

Strategic investments in infrastructure and energy, financial support for the investment activity of domestic production companies aimed at boosting innovations, competitiveness and productivity of companies, along business environment and tax policy reforms, and export growth are the basic assumptions for the medium-term macroeconomic scenario.

Education reforms aligned with current labor market demands, along with improvements in healthcare and social security, will support human capital development, providing a foundation for increased efficiency and productivity of the domestic economy and sustainable long-term growth.

Combating corruption, grey economy and unfair competition, combined with the digitalisation of public service delivery to citizens and businesses, are expected to have a positive effect on the growth potential.

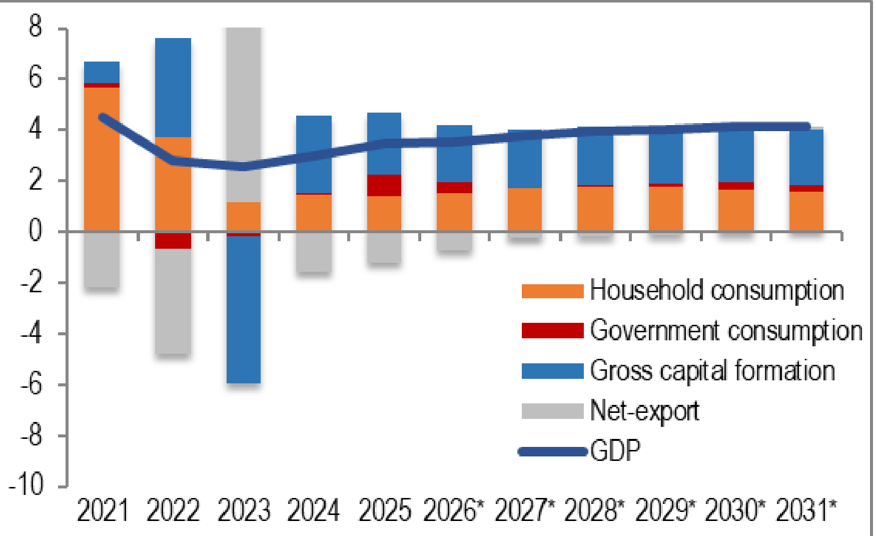
Efforts to attract foreign direct investment and expand existing capacities of foreign companies, which by introducing advanced technologies, further diversifying the production with higher added value products and expanding of the export markets, will likewise strengthen the country's export capabilities. A larger presence of foreign company will create opportunities for cooperation with the domestic firms, which, supported by government initiatives to raise operational standards and competitiveness, can integrate into global supply chains.

One of the key assumptions for achieving higher growth rates is the stabilisation of global environment, the easing of inflationary pressures, and the strengthening of economic activity among our major trading partners.

EU's Growth Plan for the Western Balkans, an instrument aimed at accelerating convergence toward the EU average standard by providing additional funding for capital projects and the structural reforms outlined in the Reform Agenda, is also expected to underpin the economic growth.

Hence, under the baseline macroeconomic scenario, real GDP growth projections for 2026 has been revised to 3.5% (from 3.8% previously), mainly as a result of the uncertainty and the constrains stemming from the conflicts and the geopolitical tensions which have a negative impact on the global economic activity. This implies certain delay in the previously projected trajectory of acceleration of economic activity in the country. Still, as global factors are expected to stablise, growth is projected to gradually gain momentum, averaging 4.0% over the period 2027 - 2031.

Chart 12. GDP Growth Expenditure Structure (contribution to GDP/growth, percentage points)



Source: State Statistical Office and calculations of Ministry of Finance (* forecast)

The investment momentum generated by major infrastructure projects is expected to largely offset the effects of the limiting factors arising from the external shocks and to be the key driver of economic activity in 2026, with real growth projected at 7.2%. In the period 2027 - 2031, investments are expected to grow at an average rate of 6.7%, amid scaled-up capital investments as foreseen under the Budget and SOE, in particular investments in efficient infrastructure which will boost both the competitiveness and the development of the business entities. Capital projects in the municipalities are likewise expected to contribute, supporting more balanced regional development over the medium and the long term, alongside projects in the field of education, health and environment. Strong effects on the domestic investment activity in the period ahead are expected from ongoing and planned energy sector investments, aimed at driving energy transformation, diversification and ensuring independence and sustainability of supply. Investment activity of domestic companies is expected to stay at a high level, driven by strong credit activity, also supported by favourable financing secured by the Government, a predictable tax environment, digitalised public services and improvements in the business climate aligned with the needs of the companies. Rising interest in investing by both the existing the new foreign-capital companies is expected to drive greater diversification of production and secure access to new markets.

Consumption is also envisaged to support domestic demand growth. In 2026, private consumption is expected to achieve real growth of 2.3%, with rising wages, pension increase and government measures cushioning the household income against the effects of the price pressures. Favourable trends at private consumption are expected to continue over the 2027 - 2031 period, when average annual growth of 2.9% is projected, underpinned by the expectations for further improvement of the labour market conditions and growth of household disposable income. Positive effects on private consumption are also expected from the credit support provided by the banks.

Public consumption is expected to slow down in the course of 2026, with real growth projected at 2.5% In the coming years, public consumption is expected to grow with a slower pace, i.e. 1% average annual growth is projected in the period 2027 - 2031, reflecting the commitments to reduce the less productive budget expenditures and rationalise them, as well as pursue the fiscal consolidation over the medium term.

Projected downward revision of global economic growth and external demand for 2026 likewise condition a lower growth of export of goods by the domestic companies, which is set at 4.1% in real terms. Over the medium term, amid expected stabilisation of growth of external demand and increased export potential in the country, export is expected to experience average annual growth of 5.4% in real terms in the period 2027 - 2031. Amid more moderate export growth and rising domestic demand, the real growth of import of goods and services is projected at 4.2% in 2026, which implies a negative contribution of net exports to economic growth. Certain stabilisation of the import demand is envisaged in the period ahead, i.e. import of goods and services is projected to grow at an average annual rate of 4.6% in the period 2027 - 2031, with a gradual narrowing of the negative contribution of net export to the economic growth and its shifting to the positive zone by the end of the analysed period.

Table 2. Key Macroeconomic Indicators for North Macedonia

	2024	2025	2026*	2027*	2028*	2029*	2030*	2031*
GDP, real growth rate	3.0	3.5	3.5	3.8	4.0	4.0	4.1	4.1
Inflation rate (average)	3.5	4.1	4.5	3.3	2.3	2.3	2.1	2.0
Gross investments (% of GDP)	30.6	31.7	32.4	33.4	34.4	35.3	36.2	36.8
Current account balance (% of GDP)	-2.2	-4.4	-5.0	-4.4	-3.6	-3.1	-2.6	-2.3
Net wage - nominal growth (%)	12.6	9.6	8.3	6.8	6.1	5.2	5.1	4.9
Unemployment rate (average)	12.4	11.5	11.0	10.3	9.7	9.0	8.3	7.5
Employment rate (average)	45.8	46.4	47.0	47.6	48.3	49.0	49.7	50.4

Source: SSO, NBRNM and Ministry of Finance projections (*)

Looking ahead, favourable trends on the labour market are expected to continue, supported by rising investments and associated labour demand, alongside the measures and the activities aimed at job creation. Activities to better target the social assistance and activate the unemployed - beneficiaries of social assistance, are expected to further support employment. Substantial amount of funds are envisaged for active employment programmes and measures, with a strong focus on young people, women and vulnerable categories, aimed at acquiring skills, additional professional education and retraining, as well as support to entrepreneurship. Reforms in secondary vocational education, together with upgraded curricula in high school aimed at acquiring digital skills, are expected to reduce skill mismatches in the labour market. Hence, employment is expected to expand over the 2026 - 2031 period, with an average annual growth projected at 1.4%. Such trends on the labour market are envisaged to provide for the unemployment rate to gradually drop, reaching 7.5% in 2031. At the same time, employment rate is projected to pick up, reaching 50.4% in 2031. Average net wage is expected to grow by 8.3% in 2026, amid growth at certain public sector activities, above all education and health, alongside further increase in private sector wages. Over the medium term, average wage is projected to grow by 5.6% in nominal terms on average, driven by continued improvement in productivity.

At the beginning of 2026, inflation entered a downward trend and, as per the earlier projections, it was expected to gradually stabilise. Still, amid heightened geopolitical tensions, especially those related to the Middle East conflict and rising oil prices, inflation projections have been revised upwards. Risks linked to the potential continuation of the conflict, combined with the rise in commodity prices on the global markets and their spillover on the domestic economy, are the key reason for the upward revision.

According to the latest projections, inflation in 2026 is expected to reach 4.5%, gradually dropping to 3.3% in 2027 and stabilising to around 2% in 2028. Over the medium term, inflation is expected to stabilise, with a projected average rate of 2.4% in the period 2027 - 2031. Inflation outlook remains subject to considerable uncertainty. In the short run, risks are predominantly upward, amid possible further increase in energy and commodity prices, while in the medium run, they are more balanced, shaped by external factors and intensity of the domestic inflationary pressures.

BOP current account deficit is envisaged to widen in 2026, accounting for 5.0% of GDP, reflecting the expected increase of the trade deficit stemming from the higher prices of commodities, especially oil. Over the medium term, current account deficit is envisaged to improve, i.e. to narrow to 2.3% in 2031, driven by the projected narrowing of the trade deficit amid normalisation of the developments in the global and the domestic economy.

Baseline macroeconomic scenario is accompanied by notable risks, mainly assessed as downside ones, in relation to the projected economic growth. An escalation of the war in the Middle East may trigger additional rise in prices of energy commodities and seriously jeopardise their availability, particularly for the less developed countries. Such developments could quickly affect the prices of other primary commodities and raw materials, disrupt the supply chains and heighten the inflationary expectations. Rising uncertainty and a decline in global confidence could further delay corporate decisions on planned investments. On the domestic front, slower implementation of capital investments and planned reforms could postpone the expected acceleration of economic activity.

2. Budget of the Republic of North Macedonia (Central Government Budget and Budgets of the Funds)

2.1 2025 Revenue Performance and Expenditure Execution

In 2025, total revenues of the Budget of the Republic of North Macedonia[2] (Table 2) were collected in the amount of Denar 335,773 million or approximately 92% of the revenues projected in the 2025 Budget, i.e. they were higher by 9.9% compared to the ones collected previous year. Denar 192,073 million out of this amount was tax revenues, being higher by 8% compared to last year. VAT revenues were collected in the amount of Denar 87,043 million, accounting for the most in the tax revenues – 45.3%. PIT revenues were collected in the amount of Denar 34,602 million, with profit tax revenues and excise revenues collected in the amount of Denar 21,893 million and Denar 31,104 million respectively. All types of tax revenues experienced growth. Revenues on the basis of social contributions were collected in the amount of Denar 114,889 million, being by Denar 9.221 million or 8.7% higher in relation to 2024. Revenues collected on the basis of pension insurance contributions and employment contribution amounted to Denar 77,696 million and Denar 4,764 million respectively, with revenues on the basis of health insurance contributions amounting to Denar 32,429 million.

In 2025, non-tax revenues were collected in the amount of Denar 19,237 million. Budget users' non-tax revenues on special revenue accounts, collected in the amount of Denar 7,671 million, accounted for the most therein. Capital revenues were collected in the amount of Denar 2,268 million, with budget users generating Denar 7,306 million on the basis of donations from international multilateral and bilateral cooperation.

In 2025, total expenditures of the Budget of Republic of North Macedonia were executed in the amount of Denar 377,567 billion, accounting for around 92.9% of the expenditures projected in the 2025 Budget, i.e. execution was higher by 8.7% in relation to the previous year. During this period, all liabilities of the budget users, rights citizens are entitled to under the law and due liabilities towards domestic and foreign creditors were settled seamlessly and in a timely manner.

Current expenditures were executed in the amount of Denar 349,115 million. Over the period considered, Denar 48,414 million was paid for wages and allowances to the employees with the budget users, while expenditures related to goods and services were executed in the amount of Denar 23,040 million.

Transfers-related expenditures accounted for the most in the current expenditures, amounting to Denar 257,810 million in the respective period. Government liabilities on the basis of payments related to exercising the rights to guaranteed social protection of the citizens (pecuniary allowances to vulnerable categories of citizens, as well as child allowance and parenting payments), amounting to Denar 14.909 million, were settled on regular basis. As regards regular payment of pensions, Denar 107,850 million was allocated therefore. With respect to financing health services and benefits, Denar 50,659 million was paid, while Denar 3,135 million was allocated for payment of unemployment benefits through the Employment Agency. Denar 28,812 million was transferred from the Budget of the Republic of North Macedonia to the municipalities as block grants for financing the transferred competences, as well as earmarked grants for financing the operating costs of the local public institutions. In addition, Denar 4,888 million was transferred on the basis of VAT revenues. During the analysed period, agricultural subsidies were paid on continuous basis and in a timely manner, aimed at improving the quality and the competitiveness of the sector. A total of Denar 5,455 million in sovereign guarantees was paid from the Budget of the Republic of North Macedonia.

Denar 19,851 million was allocated for regular servicing of liabilities on the basis of interest, as per the repayment schedules on domestic and foreign borrowing. Denar 10,697 million out of this amount was allocated for payment of interest on foreign borrowing. For the purpose of regular servicing of liabilities on the basis of repayment of principal, funds in the amount of Denar 66,051 million were spent.

In 2025, capital expenditures were executed in the amount of Denar 28,452 million, i.e. execution was lower by Denar 246 million or by 0.9% in relation to last year.

State budget deficit amounted to Denar 41,794 million in 2025, accounting for 4% compared to the GDP projected in 2025.

[2] Pursuant to the Decision on Reallocation of Funds between Central Government Budget Users and the Funds in 2025 ("Official Gazette", no. 246/2025)

Table 3. 2025 Budget of the Republic of North Macedonia and its Execution

	Budget 2025	Revised Budget 2025	Realloca tion 2025	Realization 2025	Realization 2025	Realization 2025/ Realocation 2025(%)	Realization 2025/ Realization 2024 (%)
							in %
TOTAL REVENUES	**358,838**	**362,377**	**364,877**	**335,773**	**305,553**	**92.0%**	**9.9%**
Taxes and Contributions	**319,234**	**319,196**	**319,196**	**306,962**	**283,557**	**96.2%**	**8.3%**
Taxes	202,139	202,100	202,100	192,073	177,889	**95.0%**	**8.0%**
Personal Income Tax	35,676	35,676	35,676	34,602	31,852	**97.0%**	**8.6%**
Profit Tax	23,287	23,287	23,287	21,893	20,185	**94.0%**	**8.5%**
VAT (net)	86,692	86,692	86,692	87,043	81,465	**100.4%**	**6.8%**
Excises	35,388	35,388	35,388	31,104	28,705	**87.9%**	**8.4%**
Import Duties	16,255	16,255	16,255	14,830	12,917	**91.2%**	**14.8%**
Other Taxes	4,841	4,802	4,802	2,601	2,765	**54.2%**	**-5.9%**
Contributions	117,095	117,096	117,096	114,889	105,668	**98.1%**	**8.7%**
Non Tax Revenues	**26,302**	**30,608**	**31,108**	**19,237**	**16,920**	**61.8%**	**13.7%**
Capital Revenues	**3,510**	**2,830**	**2,830**	**2,268**	**1,851**	**80.1%**	**22.5%**
Foreign Donations	**9,792**	**9,743**	**11,743**	**7,306**	**3,225**	**62.2%**	**126.5%**
TOTAL EXPENDITURES	**400,188**	**403,727**	**406,227**	**377,567**	**347,489**	**92.9%**	**8.7%**
Current Expenditures	**353,032**	**356,377**	**362,172**	**349,115**	**318,791**	**96.4%**	**9.5%**
Wages and Allowances	48,141	49,189	49,175	48,414	43,889	**98.5%**	**10.3%**
Goods and Services	26,325	28,025	27,599	23,040	22,923	**83.5%**	**0.5%**
Transfers to LGUs	33,239	33,516	33,516	33,700	30,781	**100.5%**	**9.5%**
Subcidies and transfers	30,972	25,148	25,043	24,321	31,000	**97.1%**	**-21.5%**
Paid quarantees	0	3,000	5,500	5,455	0		
Social Transfers	193,510	196,882	201,382	194,334	172,386	**96.5%**	**12.7%**
Interest	20,845	20,617	19,957	19,851	17,812	**99.5%**	**11.4%**
Capital Expenditures	**47,156**	**47,351**	**44,056**	**28,452**	**28,698**	**64.6%**	**-0.9%**
BUDGET BALANCE	**-41,350**	**-41,350**	**-41,350**	**-41,794**	**-41,936**	**101.1%**	**-0.3%**
BUDGET BALANCE (% of CDP)	**-4.0%**	**-4.0%**	**-4.0%**	**-4.0%**	**-4.3%**		
Primary budget balance (% of GDP)	**-2.0**	**-2.0**	**-2.1**	**-2.1**	**-2.5**		
FINANCING	**41,350**	**41,350**	**41,350**	**41,794**	**41,936**		
Inflow	**123,917**	**125,586**	**123,086**	**121,766**	**80,862**		
Domestic	56,507	59,664	59,664	58,998	55,529		
Foreign	38,425	41,623	40,361	37,368	46,440		
Deposits	28,985	24,299	23,061	25,400	-21,107		
Outflow	**82,567**	**84,236**	**81,736**	**79,972**	**38,926**		
Domestic	16,901	17,008	17,008	16,920	18,718		
Foreign	49,291	49,153	49,153	49,131	20,208		
Outflow per quarantees	1,000	2,700	200	101	0		
Other outflows per given loans	15,375	15,375	15,375	13,820	0		

Source: Ministry of finance

2.2. 2026 Budget of the Republic of North Macedonia

2026 Budget of the Republic of North Macedonia is designed to be consolidated and realistic, providing for an accountable public finance management and sustainable level of both budget deficit and public debt.

Over the course of 2026, the following is envisaged:

- strict control over incurring new liabilities and adherence to the budgetary principles of economy and efficiency;
- new employments aligned with the fiscal capacity;
- improved collection of own revenues by the budget users;
- prudent use of public funds;
- realistic planning and timely execution of capital expenditures;

- redesigning the subsidy and social transfer system under stricter rules;
- strengthened fiscal discipline and transparency, and
- process digitalisation so as to deliver more efficient and higher-quality public services.

A key feature of the 2026 Budget is that, despite a 13% increase in revenues, expenditures are projected to grow by 2.6% compared to 2025, resulting in a reduction of the budget deficit by approximately Denar 3.3 billion. As per 2026 Budget, total revenues are projected in the amount of Denar 374.9 billion, whereby expenditures are projected in the amount of Denar 414.2 billion. Such projected revenues and expenditures result in a budget deficit of Denar 39.2 million in absolute terms, or 3.5% of the projected GDP. The projected level of budget spending allows for regular and smooth functioning of the institutions, settling the liabilities towards international creditors, as well as improving the living standard of both the citizens and the business community.

2.3 Revenue Performance and Expenditure Execution in Q1 2026

In Q1 2026, **total revenues** of the Budget of the Republic of North Macedonia[3] (Table 2) were collected in the amount of Denar 81,240 million or approximately 21.7% of the revenues projected in the 2026 Budget, i.e. they were higher by 5.6% compared to the ones collected in Q1 previous year. Denar 44,153 million out of this amount was tax revenues, being higher by 5.9% compared to the analyzed period last year. VAT revenues were collected in the amount of Denar 18,770 million, accounting for the most in the tax revenues – 42.5%. PIT revenues were collected in the amount of Denar 8,208 million, with CIT revenues and excise duty revenues collected in the amount of Denar 6,746 million and Denar 6,649 million respectively. Revenues collected on the basis of PIT, CIT, VAT and import duties experienced growth, with other tax revenues and excise duty revenues experiencing lower performance compared to the analyzed period last year. During this period, Denar **1,219** million was paid from the Budget of the Republic of North Macedonia as refund of solidarity tax the companies paid in 2023. Revenues on the basis of social contributions were collected in the amount of Denar 27,792 million, being by Denar 1,859 million or 7.2% higher in relation to the respective period in 2025. Revenues collected on the basis of pension insurance contributions and employment contribution amounted to Denar 18,764 million and Denar 1,148 million respectively, with revenues on the basis of health insurance contributions amounting to Denar 7,880 million.

In Q1 2026, non-tax revenues were collected in the amount of Denar 8,368 million. The largest share comprised the non-tax revenue in the amount of Denar 3,055 million which the NBRNM transferred to the Budget on the basis of the profit generated in the previous year. Capital revenues were collected in the amount of Denar 268 million, with budget users generating Denar 659 million on the basis of donations from international multilateral and bilateral cooperation.

In Q1 2026, **total expenditures** of the Budget of the Republic of North Macedonia were executed in the amount of Denar 106,379 million, or around 25.7% of the expenditures projected in the 2026 Budget, i.e. execution was higher by 18.5% in relation to the same period last year. During this period, all liabilities of the budget users, rights citizens are entitled to under the law and due liabilities towards domestic and foreign creditors were settled seamlessly and in a timely manner.

Current expenditures were executed in the amount of Denar 93,825 million. Over the period considered, Denar 12,251 million was paid for wages and allowances to the employees with the budget users, while expenditures related to goods and services were executed in the amount of Denar 6,891 million.

Transfers-related expenditures accounted for the most in the current expenditures, amounting to Denar 66,819 million in the respective period. Government liabilities on the basis of payments related to exercising the rights to guaranteed social protection of the citizens (pecuniary allowances to vulnerable categories of citizens, as well as child allowance and parenting payments) were settled on regular basis, amounting to Denar 3,821 million. As regards regular payment of pensions, Denar 28,508 million was allocated therefore. With respect to financing health services and benefits, Denar 12,961 million was paid, while Denar 576 million was allocated for payment of unemployment benefits through the Employment Agency. Denar 7,261 million was transferred from the Budget of the Republic of North Macedonia to the municipalities as block grants for financing the transferred competences, as well as earmarked grants for financing the operating costs of the local public institutions. In addition, Denar 975 million was transferred on the basis of VAT revenues.

Denar 7,864 million was allocated for regular servicing of liabilities on the basis of interest, as per the repayment schedules regarding domestic and foreign borrowing. Denar 4,582 million out of this amount was allocated for payment of interest on foreign borrowing. For the purpose of regular servicing of liabilities on the basis of repayment of principal, funds in the amount of Denar 31,925 million were spent.

[3] Pursuant to the 2026 Budget of the Republic of North Macedonia ("Official Gazette", no. 253/2025)

Capital expenditures in Q1 2026 totaled Denar 12,554 million (31.3% of projected capital expenditures for 2026), being significantly higher compared to the capital expenditures executed in the analysed period last year, by Denar 8,319 million. Significant share of capital spending included Corridors 8 and 10d Motorway Project - motorway built by Bechtel and ENKA, municipal infrastructure projects and meeting the defense requirements of the Army of the Republic of North Macedonia in line with the NATO standards. In Q1 2026, state budget deficit amounted to Denar 25,139 million or 2.3% compared to the GDP projected in 2026.

Table 4. 2026 Budget of the Republic of North Macedonia and Revenue Performance and Expenditure Execution in Q1 2026

	Budget 2026	Realization Q1 2026	Realization Q1 2025	Realization Q1 2026/ Budget 2026(%)	Realization Q1 2026/ Realization Q1 2025 (%)
				in %	
TOTAL REVENUES	**374,935**	**81,240**	**76,897**	**21.7%**	**5.6%**
Taxes and Contributions	**335,970**	**71,945**	**67,634**	**21.4%**	**6.4%**
Taxes	214,149	44,153	41,701	**20.6%**	**5.9%**
Personal Income Tax	38,797	8,208	7,310	**21.2%**	**12.3%**
Profit Tax	26,572	6,746	5,458	**25.4%**	**23.6%**
VAT (net)	92,506	18,770	18,130	**20.3%**	**3.5%**
Excises	35,838	6,649	6,842	**18.6%**	**-2.8%**
Import Duties	19,417	3,719	3,409	**19.2%**	**9.1%**
Other Taxes	1,019	61	552	**6.0%**	**-88.9%**
Contributions	121,822	27,792	25,933	**22.8%**	**7.2%**
Non Tax Revenues	**29,060**	**8,368**	**7,196**	**28.8%**	**16.3%**
Capital Revenues	**2,510**	**268**	**196**	**10.7%**	**36.7%**
Foreign Donations	**7,394**	**659**	**1,871**	**8.9%**	**-64.8%**
TOTAL EXPENDITURES	**414,174**	**106,379**	**89,804**	**25.7%**	**18.5%**
Current Expenditures	**374,052**	**93,825**	**85,569**	**25.1%**	**9.6%**
Wages and Allowances	52,628	12,251	11,274	**23.3%**	**8.7%**
Goods and Services	28,177	6,891	4,765	**24.5%**	**44.6%**
Transfers to LGUs	36,007	8,236	7,656	**22.9%**	**7.6%**
Subcidies and transfers	23,864	6,881	4,987	**28.8%**	**38.0%**
Paid quarantees	3,000	161	3,661		
Social Transfers	209,100	51,541	45,121	**24.6%**	**14.2%**
Interest	21,277	7,864	8,105	**37.0%**	**-3.0%**
Capital Expenditures	**40,122**	**12,554**	**4,235**	**31.3%**	**196.4%**
BUDGET BALANCE	**-39,239**	**-25,139**	**-12,907**	**64.1%**	**94.8%**
BUDGET BALANCE (% of CDP)	**-3.5%**	**-2.3%**	**-1.2%**		
Primary budget balance (% of GDP)	**-1.6**	**-1.6**	**-0.5**		
FINANCING	**39,239**	**25,139**	**12,907**		
Inflow	**116,649**	**57,373**	**61,341**		
Domestic	35,614	14,965	17,187		
Foreign	85,504	62,305	32,976		
Deposits	-4,469	-19,897	11,178		
Outflow	**77,410**	**32,234**	**48,434**		
Domestic	19,936	5,587	10,119		
Foreign	54,924	26,338	37,619		
Outflow per quarantees		48	52		
Other outflows per given loans to financial institutions	2,550	261	644		

Source: Ministry of finance

2.4 2027 - 2031 Medium-Term Framework of the Budget of the Republic of North Macedonia

Medium-term fiscal framework is prepared in line with the provisions stipulated in the OBL, including the 2024 - 2028 strategic priorities and the 2024 - 2028 Fiscal Policy Statement.

In line with the Decision on Determining Strategic Priorities, following priorities are established:

- restoring confidence in the institutions, strengthening the security, efficient fighting against corruption and crime, independence of judiciary and rule of law;
- country's economic revival, enhancing the energy transition, encouraging strong economic growth, stable public finances, improving the overall transport infrastructure, increasing the living standard, better and quality life for everyone;
- improving the national defence policy and planning in support of protecting independence, territorial integrity, safety of the citizens, as well as collective safety;
- integration of the Republic of North Macedonia in the European Union;
- extensive improvement of quality, infrastructure and availability of/accessibility to education, creating a knowledge-based society and successfully coping with the modern challenges;
- professional and efficient public administration, development of digital economy, ICT sector, artificial intelligence, innovations and startup ecosystem;
- creating a setting for clean environment and coping with climate changes, and
- implementing the Ohrid Framework Agreement in full, strengthening multicultural cohesion and promoting multicultural values.

2027 - 2031 fiscal policy will be aimed at the following:

- improving macroeconomic stability, supporting economic activity, accelerating economic growth,
- gradual fiscal consolidation through prudent and disciplined budget spending;
- special focus will be put on investments in infrastructure projects, which are expected to drive a high level of capital expenditures;
- reducing the grey economy and higher budget revenue collection;
- strengthening the growth potential of the domestic economy.

Fiscal policy for the period 2027 - 2031 will be also aimed at creating preconditions for a new cycle of economic growth via boosted public capital investments, gradual fiscal consolidation and improved public finance management.

Alongside the commitment to fiscal consolidation and budget savings, support for the economy will continue through investments in infrastructure projects, redesigning the public finance structure by maintaining high level of capital expenditures, as well as strengthening both the transparency and the accountability.

At the same time, non-essential expenditures will be reduced and spending effectiveness and efficiency will be substantially improved, reflecting the commitment to pursuing disciplined fiscal policy.

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections.

Budget deficit, as the primary focus of fiscal policy, should remain within the ceilings set by the Maastricht criteria and the OBL. Set projections show that 2028 budget deficit is fully aligned with the EU standards on fiscal discipline, clearly underscoring the stability and credibility of public finances.

At its session, held on 21st April 2026, the Government adopted the fiscal projections for the 2028 - 2031 period in line with the existing legislation on fiscal rules pertaining to the deficit, while for 2027, due to the external pressures and the prolonged risks, budget deficit is envisaged to result in a deviation of 0.5%, with the deficit reaching 3.5% of GDP.

Medium-term fiscal framework aims at delivering fiscal consolidation, prioritizing expenditures and ensuring stable financing of the functions of the state.

Furthermore, structure of public expenditures is expected to improve over the medium term, with share of capital expenditures in the total expenditures continuously rising from 9.9% in 2027 to 17.1% in 2031.

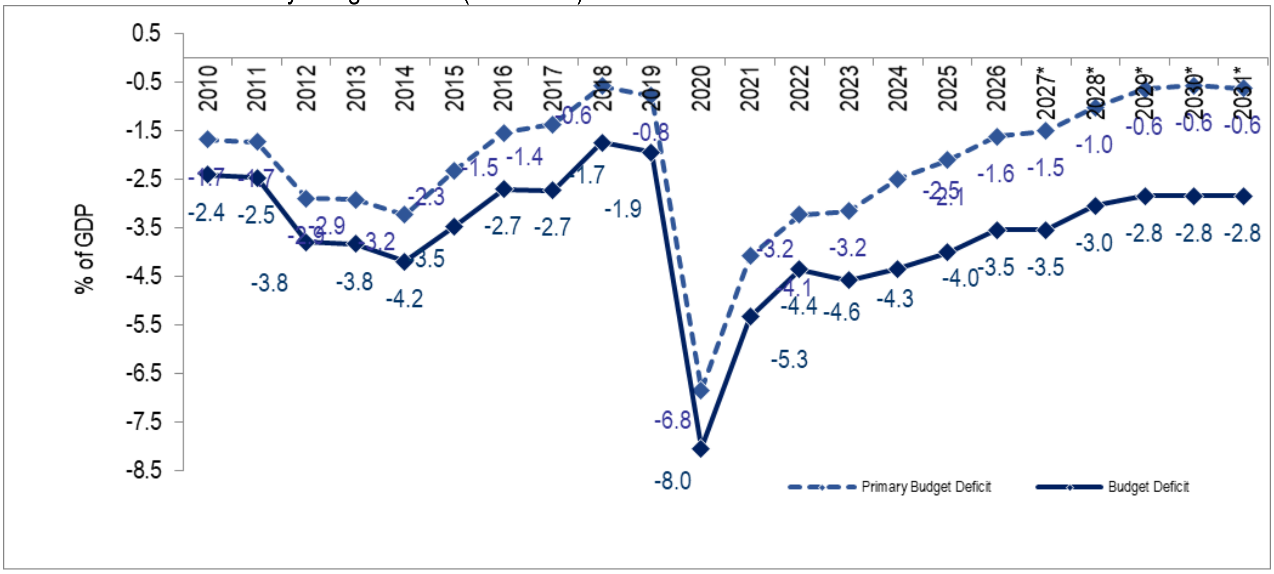
To ensure fiscal sustainability over the medium term, fiscal projections envisage a framework for adhering to the fiscal rules.

These rules are designed so as to be aligned and consistent with the EU fiscal rules, thereby strengthening the confidence in and the stability of public finances.

Applying such framework aims at ensuring a disciplined and predictable fiscal policy, underpinned by medium-term projections and achievable goals.

The Fiscal Strategy establishes a balanced approach to addressing ongoing fiscal and economic challenges. Focusing on fiscal consolidation provides a strong basis for maintaining stability and ensuring sustainable and inclusive economic development. Thereby, budget deficit is reduced as a percentage share of GDP, as follows: from 3.5% in 2027 to 3% in 2028 and 2.8% in 2029, 2030 and 2031.

Chart 13. Total and Primary Budget Deficit (% of GDP)



Government of the Republic of North Macedonia will gradually align with the fiscal rules by implementing measures on both the revenue and the expenditure side, including:

- increased collection of budget revenues by reducing the informal economy;
- improved collection of tax revenues by introducing e-invoice and other reform-oriented projects within the PRO;
- further reduction of budget users' non-essential expenditures;
- implementing policies on wages and pensions aimed at protecting their real value;
- uncompromising fight against corruption via strict control over the adherence to the Public Procurement Law, which will provide for substantial savings at all budget users;
- improving the processes of planning and implementing capital investments;
- prioritizing capital projects on the basis of the ready-to-implement element and the socio-economic benefits from their implementation.

2.4.1 Revenues

Total revenues of the Budget of the Republic of North Macedonia (Central Budget and Funds: Pension and Disability Insurance Fund, Health Insurance Fund and Employment Agency) for the period 2027 - 2031 are projected at around 33.2% of GDP. Revenue projections in the coming medium-term period are based on revenues generated in the previous years, revenues collected in the current year, projections for macroeconomic indicators and the effects from the planned tax reforms.

Main objective of the tax policy in the coming period is to ensure fair, efficient, transparent and modern tax system based on contemporary digital technologies and innovations in the field of taxation, all to the end of attaining an accelerated, inclusive and sustainable economic growth.

Tax policy objective is to be achieved through:

- digitalisation of tax procedures, as one of the main activities in the tax reform process, with the goal being to use the resources utterly and facilitate the process of paying taxes;
- introduction of e-invoicing is one of the first activities planned to be undertaken in the coming period, aimed at carrying out tax audit in a more efficient manner, at the same time saving resources at both the tax administration and the taxpayers;
- reducing the grey economy and higher budget revenue collection;
- keeping the tax rates low, while boosting capital investment funding, along with providing tax exemptions, subsidies and incentives to support the domestic private sector and the citizens.

Payment of the global minimum corporate income tax will begin in 2026, with the corporations with consolidated revenues exceeding EUR 750 million being obliged to pay top-up tax at a rate equal to the difference between the minimum tax rate of 15% and the effective tax rate computed pursuant to the Law on Global Minimum Corporate Income Tax.

Table 5. Review of Tax Rates in the Republic of North Macedonia - 2024

Type of Tax	Tax Rate %
Personal Income Tax	10% for all types of income
	15% on income on the basis of games of chance
Corporate Income Tax	10%
Global Minimum Corporate Income Tax	Tax rate of 15% and effective tax rate computed pursuant to the Law on Global Minimum Corporate Income Tax
VAT	18% standard tax rate
	10% and 5% preferential tax rate
Mandatory Social Insurance Contributions (all)	28%
Property Tax, Annual	0.1% - 0.2%
Tax on Sales of Real Estate	2% - 4%
Tax on Inheritance and Gift	0% - first-order heir
	2% - 3% - second-order heir
	3% - 4% other

Throughout 2023, a series of tax policy reforms were carried out to enhance both the effectiveness and the efficiency of the tax system, strengthen the provisions to prevent tax avoidance, broaden the tax base by eliminating certain tax incentives, and thereby improve revenue mobilisation in support of the Government's commitment to fiscal consolidation. The reforms were projected to boost tax revenues by around 0.7% of GDP annually beginning in 2024 (including the fiscal impact of the PIT reform adopted in 2022). They were endorsed and welcomed by the European Union and the international financial institutions, such as the IMF and the World Bank, and were developed through a transparent and inclusive process, involving all relevant stakeholders.

Under the modifications and amendments to the **Personal Income Tax Law**, the fiscal implications of which were estimated in the amount of Denar 533 million in 2025, tax exemptions as regards life insurance premium, premium for voluntary health insurance and contributions in a voluntary pension fund paid by the employers on behalf of and for the account of employed people have been abolished, while tax base for benefits in kind for managers is regulated more closely. Moreover, taxation of capital gains generated on the basis of sale of securities and shares issued by investment funds is also closely regulated, as is the PIT exemption on interest on time deposits, which will apply by the day the Republic of North Macedonia joins the European Union.

Under the modifications and amendments to the **Corporate Income Tax Law**, the fiscal implications of which were estimated in the amount of Denar 872 million in 2025, tax exemptions as regards life insurance premium paid by the employers on behalf of and for the account of employed people have been abolished, mandatory submission of transfer price report upon request by the tax authority has been prescribed, increased fines for the entities failing to use the funds committed to making investments from the profit generated in the previous year, but having used the tax exemption on the basis of reinvested profit, have been envisaged and tax exemptions as regards donations to sports entities through the voucher system have been abolished.

Under the modifications and amendments to the **VAT Law**, the fiscal implications of which were estimated in the amount of Denar 2,300 million in 2025, the respective Law has been further harmonised with the EU Acquis in the field of value added tax, with the VAT treatment of vouchers being defined, the place of supply of services being regulated and the VAT tax representative being introduced, alongside increase of the VAT refund threshold and changes to the requirements for VAT refund to foreign diplomatic or consular representative offices. Moreover, the respective Law also envisages increase of the VAT rate (from 5% to 10%) on foodstuff for human consumption other than basic foodstuff for human consumption, reduction of VAT rate on supply of digital textbooks and menstrual hygiene products, and it closely regulates the provisions pertaining to issuance of a VAT number and registration, and prescribes a special type of tax base.

Under the modifications and amendments to the **Law on Excises**, the fiscal implications of which were estimated in the amount of Denar 833 million in 2025, the respective Law has been further harmonised with the EU Acquis, envisaging gradual alignment of the minimum overall excise duty on cigarettes with the minimum excise duty in the EU, a step-by-step process set to be completed by 2030 inclusive, by introducing a new Excise Calendar as regards excise duty on cigarettes and other tobacco products, as well as e-liquid. Furthermore, the excise duty on heated herbal products for smoking has been closely regulated, as has been the procedure for denaturing ethyl alcohol and its use, the procedure for issuing approval for a preferential user has been facilitated, while excise duty-related misdemeanours have been revised.

As part of the efforts to protect the environment, **the Decree on the Manner of Assessing Motor Vehicles Tax and the Amounts Needed for Calculation of the Motor Vehicles Tax** has been amended, envisaging increased coefficients of the environmental component for taxation of passenger motor vehicles falling in the category of the largest CO2 polluters. For the purpose of assessing the environmental component of the motor vehicles tax, application of the new WLTP method (Worldwide Harmonised Light Vehicle Test Procedure) is envisaged alongside the existing NEDC method (New European Driving Cycle).

Under the Law on Global Minimum Corporate Income Tax* ("Official Gazette of the Republic of North Macedonia", no. 3/2025), the fiscal implications of which were estimated in the amount of Denar 1,600 million in 2026, measures have been stipulated for minimum effective taxation of multinational enterprise groups and large-scale domestic groups, constituent entities, manner of computing the effective tax rate, computation of the tax base and the top-up tax, excluded entities, procedure for gathering information on constituent entities and manner of filing a top-up tax return and paying top-up tax, all to the end of computing and paying global minimum corporate income tax.

Moreover, Rulebook on the Manner of Computing and Collecting Qualified Top-Up Tax was adopted in December 2025 ("Official Gazette of the Republic of North Macedonia", no. 270 dated 31st December 2025), prescribing the manner of computing and colleting qualified domestic top-up tax, the form and the contents of the global information top-up tax return, as well as the notification on the responsible constituent entity in the Public Revenue Office, the form and the contents of the top-up tax return and the manner of payment of the top-up tax, the form and the contents of the domestic top-up tax return and the manner of payment of the domestic top-up tax.

Table 6. Projections for Fiscal Implications from the Adopted Laws (Denar million)

Type of Tax	2024	2025	2026
Personal Income Tax	533	533	0
Corporate Income Tax	872	872	1,600
VAT	2,300	2,300	0
Excise duties	797	883	0

Source: Ministry of Finance

To the end of increased efficiency and effectiveness and digitalisation of the tax processes, as well as reducing the informal economy by regularly monitoring the supply among the taxpayers and increased VAT control, both Ministry of Finance and PRO prepared draft **E-Invoicing and E-Fiscalisation** Project. However, the Project has not been implemented so far. The Project is planned to become operational as soon as possible, contributing substantially to reducing the tax burden on the taxpayers and speeding up and enhancing the conducting of tax audits. The goal is for the taxpayers to be given the opportunity to issue, transmit and receive invoices in a simplified manner. Moreover, better recording of and strengthened control over invoices will provide for efficiency of both the tax audits and the tax system, reducing the time for carrying out audits by the PRO.

In line with the adopted **2023 - 2027 Strategy on Formalisation of the Informal Economy** and related 2023 - 2025 Action Plan (September 2023), share of informal economy in the total economic activities in the country is expected to be reduced over the medium term, by reducing and eliminating the factors stimulating informal activities. All this will contribute to reducing both the number of unregistered business entities and the number of informally employed persons. To that end, by efficiently implementing the measures and the activities within the deadlines set in the Action Plan, informal economy is expected to be reduced to 26% of GDP by the end of 2027.

Table 7. Projections for the Current and the Next Five Years by Type of Tax (Denar million)

Type of Tax	2026 Budget	2027*	2028*	2029*	2030*	2031*
Personal Income Tax	38,797	40,252	43,478	46,964	50,729	54,795
Corporate Income Tax	26,572	27,568	29,778	32,165	34,744	37,529
VAT	92,506	99,215	107,169	115,759	125,039	135,062
Excise Duties (Core Budget and PDIF)	35,838	36,102	38,996	42,122	45,498	49,145
Customs Duties and Motor Vehicles Tax	16,597	17,219	18,600	20,091	21,701	23,441
Other Tax Revenues and SRA	3,839	4,643	4,789	5,659	5,829	6,013
Total	**214,149**	**224,999**	**242,810**	**262,760**	**283,540**	**305,985**

Source: Ministry of Finance and Ministry of Finance's projections(*)

Tax Expenditures Report

Tax expenditures are indirect expenditures incurred on the basis of tax and customs legal provisions, resulting in reduction of tax revenues or delay in their collection for the purpose for achieving certain economic or social goal. They can take the form of exceptions, exemptions, deductions, preferential tax rates, etc.

Pursuant to the OBL ("Official Gazette of the Republic of North Macedonia", no. 203/22), a Report on the Impact of Tax Expenditures on the Inflows is to be prepared and submitted to the Parliament of the Republic of North Macedonia annually, as a document accompanying the Annual Financial Statement. The Report provides a solid analytical basis for identifying the possibilities to improve the tax policy, including assessing the justification and possible rationalisation od existing tax expenditures, all to the end of strengthening the revenue collection. The Table below outlines the total tax expenditures on the basis of PIT, CIT, VAT, duties, assessed and estimated for the period 2024 - 2031.

Table 8. Tax Expenditures by Type of Tax (Denar million)

Type of Tax	2024*	2025*	2026*	2027*	2028*	2029*	2030*	2031*
Personal Income Tax	864	961	1,078	1,118	1,208	1,305	1,409	1,522
Corporate Income Tax	5,519	6,202	7,074	7,339	7,927	8,563	9,249	9,991
VAT	40,284	43,451	46,178	49,527	53,498	57,786	62,418	67,422
Total	46,667	50,614	54,330	57,984	62,633	67,653	73,077	78,935

To the end of reducing the tax expenditures, latest amendments to the VAT Law ("Official Gazette of the Republic of North Macedonia", no. 199/23) stipulate for the VAT tax rate to be increased from 5% to 10% for foodstuff for human consumption other than basic foodstuff for human consumption.

Table 9. Types of Taxes (discrepancy)

	2026	2027				2028				2029				2030				2031			
Type of tax	**Budget 2025**	**Revised Fiscal Strategy 2025**	**Fiscal Strategy 2026**	**Absolute deviation**	**Deviation %**	**Revised Fiscal Strategy 2025**	**Fiscal Strategy 2026**	**Absolute deviation**	**Deviation %**	**Revised Fiscal Strategy 2025**	**Fiscal Strategy 2026**	**Absolute deviation**	**Deviation %**	**Revised Fiscal Strategy 2025**	**Fiscal Strategy 2026**	**Absolute deviation**	**Deviation %**	**Revised Fiscal Strategy 2025**	**Fiscal Strategy 2026**	**Absolute deviation**	**Deviation %**
Personal income tax	38,797	38,797	40,252	1,455	3.8%	41,513	43,478	1,965	4.7%	44,549	46,964	2,415	5.4%	47,768	50,729	2,961	6.2%	51,265	54,795	3,530	6.9%
Corporate tax	26,572	26,572	27,568	996	3.7%	28,432	29,778	1,346	4.7%	30,511	32,165	1,654	5.4%	32,716	34,744	2,028	6.2%	35,111	37,529	2,418	6.9%
VAT	92,506	92,506	99,215	6,709	7.3%	98,981	107,169	8,188	8.3%	106,221	115,759	9,538	9.0%	113,895	125,039	11,144	9.8%	122,234	135,062	12,828	10.5%
Excise (Basic Budget and Pension and insurance fund)	35,838	35,838	36,102	264	0.7%	38,347	38,996	649	1.7%	41,151	42,122	971	2.4%	44,125	45,498	1,373	3.1%	47,355	49,145	1,790	3.8%
Customs duties and Motor Vehicle Tax	16,597	16,597	17,219	622	3.7%	17,759	18,600	841	4.7%	19,058	20,091	1,033	5.4%	20,435	21,701	1,266	6.2%	21,931	23,441	1,510	6.9%
Other tax	1,019	3,839	1,823	-2,016	-52.5%	4,830	1,969	-2,861	-59.2%	4,947	2,127	-2,820	-57.0%	5,073	2,297	-2,776	-54.7%	5,205	2,481	-2,724	-52.3%
Total	**211,329**	**214,150**	**222,179**	**8,030**	3.7%	**229,862**	**239,990**	**10,128**	4.4%	**246,437**	**259,228**	**12,791**	5.2%	**264,011**	**280,008**	**15,997**	6.1%	**283,101**	**302,453**	**19,352**	6.8%

Source: Ministry of finance

Changes in the projections in relation to the 2025 Fiscal Strategy stem from the new macroeconomic indicators taken into account when preparing the projections. At the same time, new projections for the amounts of tax revenues collected on different basis draw on the actual tax revenues generated from the beginning of the current year. Thereby, they also incorporate the assessed effects from the amendments made to the tax laws, described in more details in the tax policy section.

With respect to the tax policy, as per the **2024 - 2028 Work Programme of the Government**, several reforms in the tax area and increasing of both efficiency and effectiveness of the tax administration are envisaged, all to the end of successfully carrying out the tax procedures.

Modifications and amendments to the Law on Tax Procedure, pertaining to simplifying and accelerating the process of tax assessment and collection and introducing the integrated tax information system, would provide for a more efficient tax collection and reduction of the bureaucratic burden on the taxpayers, so as for both the taxpayers and the tax authority to assess and collect the tax liabilities efficiently. At the same time, alignment with other laws is envisaged in the area of data exchange between institutions, while adhering to the principle of tax secrecy, ensuring greater efficiency in the actions of the competent authorities, as well as enhancing the legal protection of the taxpayers.

Digitalisation of tax procedures is one of the main objectives of the tax reform process, with the goal being to use the resources utterly and facilitate the process of paying taxes. Introduction of **e-invoicing** is one of the first activities planned to be undertaken in the coming period, aimed at carrying out tax audit in a more efficient manner and saving the tax administration resources, as well as saving time and effort of the taxpayers. E-Invoicing and E-Fiscalisation Project would be crucial for easier detecting and combating informal economy, i.e. closely monitoring the supply and payment of taxes by the taxpayers.

Combating the informal economy will be also focused on strengthening public administration capacities for detecting, monitoring and addressing informal economy via special tools; enhancing the legal regulation and the efficiency in its implementation; improving the business environment and creating a stimulative framework for formalising the informal economy and increasing the efficiency of the inspection services and the sanctions and fines system, to be monitored through greater digitalisation of all administrative processes and procedures.

On the other hand, efforts will be also dedicated to strengthening the awareness of informal economy and enhancing tax morale and trust in the institutions; increasing predictability when preparing legal solutions, policies and measures and strengthening transparency, accountability and integrity at all government levels. As part of the ongoing implementation of the 2023 - 2027 Strategy on Formalisation of the Informal Economy, the Ministry of Finance, in cooperation with the relevant institutions, will undertake activities to adopted a Revised 2023 - 2027 Strategy on Formalisation of the Informal Economy in the Republic of North Macedonia and related 2026 - 2027 Action Plan. The Revised Strategy will set out special goals and key course of action (measures), reflecting the new circumstances and needs, and aligned with the priorities and the goals outlined in the 2024 - 2044 National Development Strategy, 2024 - 2028 Work Programme of the Government and 2024 - 2027 Reform Agenda.

With respect to tax revenues, adhering to the Government's initiative to base economic growth on investments, the objective is to increase the share of direct taxes in the total tax revenues, a distinctive feature of the advanced economies.

Moreover, the tax policy envisages more efficient controls as regards the **transfer prices**, as well as enhanced and regular monitoring of the "arm's length" principle at taxpayers in cases of transactions with associated parties. Furthermore, consolidation of revenues at taxpayers is also envisaged to be regulated more closely.

As regards international taxation, it is planned to adopt a **Draft Law on Administrative Cooperation for Tax Purposes**, incorporating the EU Directive on Administrative Cooperation in the field of Taxation (DAC), by setting out the modalities of administrative cooperation in the field of taxation between the tax authority of North Macedonia and the tax authorities of other countries, including automatic exchange of information. The Draft Law aims at preventing cross-border tax evasion, thereby enhancing tax compliance in the country and boosting tax revenue collection. .

Harmonisation of the **legal framework pertaining to VAT** with the Council Directive on the common system of value added tax and its Implementing Regulations will continue in the coming period as well. The objective is to achieve greater compliance and create a broader tax base for tax revenue collection. VAT regulations in the Republic of North Macedonia are fully compliant with the VAT Directive as regards the tax rates and partially compliant with the respective Directive as a whole. Moreover, as per the Work Programme of the Government, more efficient, yet safe, manner of tax credit refund is envisaged through enhanced control mechanisms and risk analysis.

Upon the adoption of the Decision establishing crisis situation due to potential disruption in the supply of oil and oil derivatives in the Republic of North Macedonia, a Decision was adopted to reduce VAT rate on fuels from 18% to 10%. The measure is intended to mitigate price pressures and lower costs for both the citizens and the businesses, while also aiming to stabilise the energy market and reduce inflationary pressures, especially amid rising global market prices.

Pursuant to the Government's Decision on determining the type of goods and the timeframe for applying a preferential tax rate, adopted at its extraordinary session held on 22nd March 2026, preferential VAT tax rate of 10% was applied to turnover of energy commodities (fuels) in the period from 24th March to 6th April 2026.

Moreover, at its extraordinary session held on 5th April 2026, the Government adopted Decision on amending the respective Decision, pursuant to which the preferential VAT tax rate of 10% on energy commodities (fuels) continued to be applied by 20th April 2026.

As for the excises, at the same extraordinary session, the Government adopted a Decision on determining energy commodities, timeframe and the manner of calculating excise duty, effective from 7th April to 20th April 2026. Under the Decision, excise duty on energy commodities is reduced, i.e. by Denar 2 per litre for petrol and by Denar 4 per litre for diesel.

Hence, according to the new method of calculating excise duty, it was reduced for the following types of energy commodities:

- engine oil under tariff codes 2710 12 45 00, 2710 12 49 00 - conditions for reducing the excise duty were met, i.e.it was decreased from Denar 22 per litre to Denar 20 per litre (lowered by Denar 2 per litre) and
- gas oil as engine oil under tariff codes 2710 19 46 00, 2710 19 47 00, 2710 19 48 00, 2710 20 11 00, 2710 20 19 00, 2710 19 44 00 and 2710 19 42 00 - conditions for reducing the excise duty were met, i.e.it was decreased from Denar 15.50 per litre to Denar 11.50 per litre (lowered by Denar 4 per litre).

With respect to **direct taxes**, the tax policy envisages certain tax incentives aimed at boosting both the employees' and the businesses' productivity, as well as improving the demographic image of the country. It is envisaged for **the treatment of recognised expenditures for tax purposes regarding the expenditures for voluntary life insurance premium paid to be reinstalled. It is also planned for PIT to be refunded to mothers of newborns, with the duration of this measure depending on the number of newborns (first, second, third child, etc.).** Moreover, it is envisaged for the companies employing mothers of three or more children to be exempted from paying health insurance contributions and unemployment insurance contributions and PIT for a period of three years as of the date of employment, with an obligation for the employer to retain the mothers at the workplace for as many years as the measure was applied.

Negotiations for text alignment and initialing of the **Agreements on Avoidance of Double Taxation and Protection of Fiscal Evasion** with respect to taxes on income are envisaged to continue in the coming period.

Table 10. 2024-2031 Budget of the Republic of North Macedonia (Denar million)

Budget of the Republic of North Macedonia for 2024–2031 (denar million)

	2024 Annual report	2025 Annual report	2026*	2027*	2028*	2029*	2030*	2031*
TOTAL REVENUES	**305,553**	**335,774**	**374,935**	**398,532**	**422,393**	**449,808**	**481,544**	**515,574**
Tax revenues and contributions	**283,557**	**306,962**	**335,971**	**355,117**	**381,683**	**410,983**	**441,742**	**474,843**
Tax revenues	177,889	192,073	214,149	224,999	242,810	262,760	283,540	305,985
Personal income tax	31,852	34,602	38,797	40,252	43,478	46,964	50,729	54,795
Profit tax	20,185	21,893	26,572	27,568	29,778	32,165	34,744	37,529
VAT	81,465	87,043	92,506	99,215	107,169	115,759	125,039	135,062
Excises	28,705	31,104	35,838	36,102	38,996	42,122	45,498	49,145
Customs duties	12,917	14,830	16,597	17,219	18,600	20,091	21,701	23,441
Other taxes	957	1,007	1,019	1,823	1,969	2,127	2,297	2,481
Tax revenues on own accounts	1,808	1,594	2,820	2,820	2,820	3,532	3,532	3,532
Contributions	105,668	114,889	121,822	130,118	138,873	148,222	158,202	168,858
Pension insurance contribution	71,436	77,696	85,807	90,029	96,331	103,074	110,289	118,010
Employment contributions	4,383	4,764	3,141	4,913	5,257	5,625	6,019	6,441
Health insurance contribution	29,849	32,429	32,874	35,175	37,286	39,523	41,894	44,408
Non-tax revenues	**16,920**	**19,238**	**29,060**	**32,657**	**31,774**	**29,472**	**29,996**	**30,920**
Capital revenues	**1,851**	**2,268**	**2,510**	**2,710**	**2,760**	**2,810**	**2,860**	**2,910**
Foreign donations	**3,225**	**7,306**	**7,394**	**8,048**	**6,175**	**6,543**	**6,945**	**6,901**
TOTAL EXPENDITURE	**347,454**	**377,613**	**414,174**	**440,956**	**461,270**	**488,523**	**522,782**	**559,319**
Current expenditure	**318,756**	**349,161**	**374,052**	**397,402**	**415,334**	**431,727**	**448,198**	**463,427**
Wages and allowances	43,889	48,414	52,628	57,314	60,653	63,684	66,233	68,882
Goods and services	22,923	23,039	28,177	29,278	31,032	31,036	31,537	32,804
Transfers to LGUs	30,781	33,700	36,007	37,511	39,253	41,230	43,246	45,502
VAT grant	4,202	4,888	5,202	5,511	5,953	6,430	6,946	7,502
Block grants	26,579	28,812	30,805	32,000	33,300	34,800	36,300	38,000
Subsidies and transfers	33,324	32,692	29,696	31,546	34,084	34,458	35,753	36,799
Social transfers	170,027	191,443	206,268	217,327	224,406	231,445	238,387	245,336
Pensions	90,646	107,850	116,820	121,931	124,736	127,605	130,284	132,890
Transitional costs	14,218	14,885	19,600	20,580	21,609	22,689	23,824	25,015
Unemployment benefits	1,207	1,197	1,500	1,598	1,635	1,653	1,662	1,680
Active employment measures	1,704	1,938	2,076	2,192	2,439	2,731	3,058	3,389
Social benefits	14,503	14,909	12,015	14,300	15,000	15,500	16,000	16,500
Healthcare	47,749	50,664	53,813	56,099	58,327	60,567	62,819	65,080
Interest payments	17,812	19,873	21,277	24,427	25,907	29,875	33,042	34,104
Capital expenditures	**28,698**	**28,452**	**40,122**	**43,554**	**45,936**	**56,796**	**74,584**	**95,892**
BUDGET BALANCE	**-41,901**	**-41,839**	**-39,239**	**-42,424**	**-38,877**	**-38,715**	**-41,237**	**-43,746**
Budget balance, % of GDP	**-4.3**	**-4.0**	**-3.5**	**-3.5**	**-3.0**	**-2.8**	**-2.8**	**-2.8**

2.4.2 Expenditures

During the period 2027–2031, total budget revenues are projected to grow moderately in nominal terms, in line with projected GDP growth and fiscal consolidation objectives. The share of total revenues in GDP is below 40%, showing a slight downward trend, from 36.8% in 2027 to 36.3% in 2031. In addition, current expenditures are projected to follow a downward trend, with their share declining from 90.1% in 2027 to 82.9% of GDP in 2031, thereby creating sufficient space for continued annual growth in capital expenditures.

Budget expenditures in the following medium-term period are based on the realistic assumptions regarding

- regular and responsible functioning of institutions, via regular liability servicing of arrears
- disciplined approach in utilisation of limited budget resources, by having increased supervision and clearly defined criteria for budget support,
- performance-based budgeting in order to improve on public expenditure efficiency and effectiveness through developing and monitoring of key performance indicators of budget policy implementation,
- redesigning budget structure and capital investments aimed at infrastructure project implementation, primarily for transport, energy and utilities infrastructure construction, investments in educational, health and other public infrastructure, as well as
- strategic planning of major infrastructure projects.

The expenditure side of the Budget of the Republic of North Macedonia for the forthcoming period has been fully aligned with the country's strategic priorities, including boosting of economic growth, stable public finances, improved public infrastructure and better living standards for the citizens.

In the period 2027-2031, average share of total expenditures of the Budget of the Republic of North Macedonia is expected to account for around 36.2% of GDP.

Budget expenditure projections for the forthcoming medium-term period are prepared on the basis of

- compliance of revenue projections with planned economic activities;
- total budget expenditure projections ensuring continuous fiscal consolidation;
- providing regular and effective execution of all legal obligations.

Table 11. 2024-2031 Budget Structure

STRUCTURE OF BUDGET 2024-2031 (%)	2024	2025	2026*	2027*	2028*	2029*	2030*	2031*
Total revenues	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Tax revenues and contributions	**92.8**	**91.4**	**89.6**	**89.1**	**90.4**	**91.4**	**91.7**	**92.1**
Tax revenues	58.2	57.2	57.1	56.5	57.5	58.4	58.9	59.3
Contributions	34.6	34.2	32.5	32.6	32.9	33.0	32.9	32.8
Non-tax revenue	**5.5**	**5.7**	**7.8**	**8.2**	**7.5**	**6.6**	**6.2**	**6.0**
Capital income	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
Donations	**1.1**	**2.2**	**2.0**	**2.0**	**1.5**	**1.5**	**1.4**	**1.3**
Total expenditures	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Current expenditures	**91.7**	**92.5**	**90.3**	**90.1**	**90.0**	**88.4**	**85.7**	**82.9**
Salaries and allowances	12.6	12.8	12.7	13.0	13.1	13.0	12.7	12.3
Goods and services	6.6	6.1	6.8	6.6	6.7	6.4	6.0	5.9
Transfers to LSGUs	8.9	8.9	8.7	8.5	8.5	8.4	8.3	8.1
Subsidies and transfers	9.6	8.6	7.2	7.2	7.4	7.1	6.8	6.6
Social transfers	48.9	50.7	49.8	49.3	48.6	47.4	45.6	43.9
Interest payments	5.1	5.3	5.1	5.5	5.6	6.1	6.3	6.1
Domestic	2.0	2.4	2.7	2.7	2.8	2.9	2.9	2.9
Foreign	3.1	2.8	2.4	2.8	2.8	3.2	3.4	3.2
Capital expenditures	**8.3**	**7.5**	**9.7**	**9.9**	**10.0**	**11.6**	**14.3**	**17.1**

When projecting the amount and the structure of current expenditures for the coming period (Chart 14), intended for regular wage payment to employees in the public sector, timely and regular payment of pensions and other social rights, interest payments to foreign and domestic creditors, payment of agricultural subsidies, support to small- and medium-sized enterprises, as well as subsidising innovation activities, the following assumptions are taken into account:

- efficiency and productivity, Increase of efficiency, productivity, and accountability of the public sector, public administration optimisation through structural changes and adjustment of wages as per economic growth, with the minimum wage serving as a component of the base wage,

- optimisation of resources: Improved resource efficiency through better planning and execution of operating expenditures for goods and services, reducing their share in total expenditures and GDP. Accordingly, the share of expenditures on goods and services in total expenditure remains relatively stable, thereby ensuring the smooth functioning of activities,

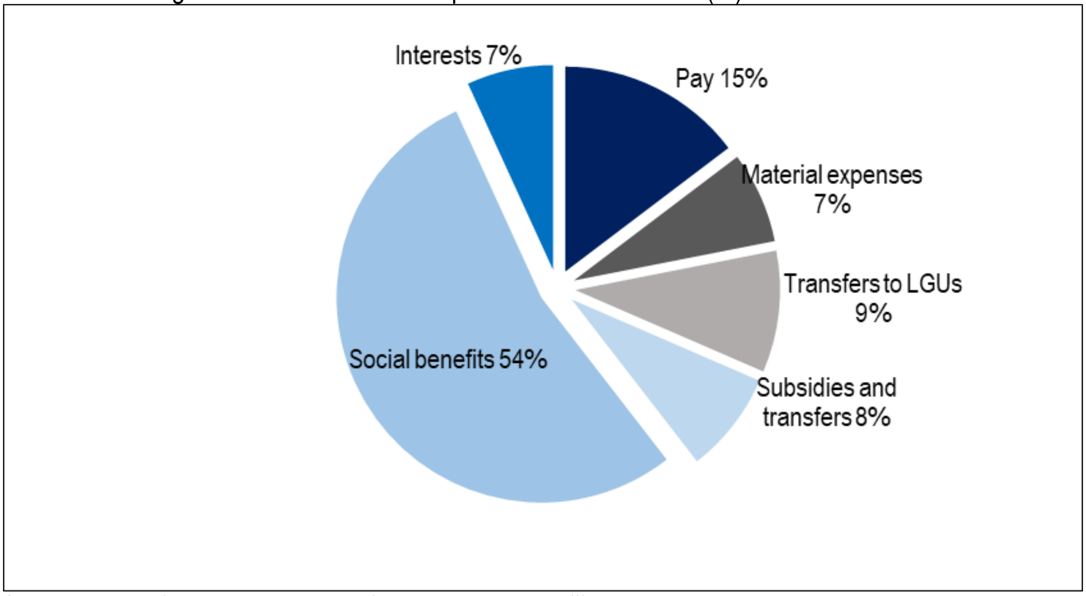
- expenditure control: Reducing non-essential expenditures,

- strengthened decentralisation: better quality services under the competences of the municipalities by redefining the criteria for allocation of funds and more efficient use of grant funds,

- full economic support: Increased resources for targeted subsidies and transfers, based on clearly defined allocation criteria, expected to have a stronger positive impact on economic activity,

- social welfare and employment: reducing poverty by properly targeting the use of social assistance and greater workforce participation in the labour market.

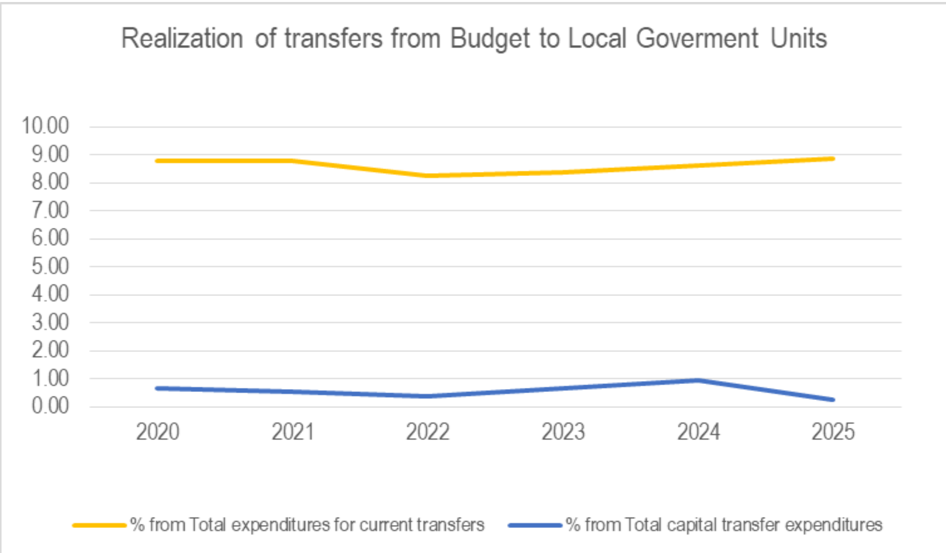
Chart 14. Average Structure of Current Expenditures 2027 - 2031 (%)



Source: Ministry of Finance and Ministry of Finance's Projections(*)

Substantial financial funds from the state budgets are being allocated for municipalities in the form of grants for implementation of the transferred competencies (in the field of primary and secondary education, culture, kindergartens and homes for the elderly and fire safety), as well as financial resources intended for the implementation of concrete capital projects at local level.

Chart 15. Transfers to LGUs



Capital expenditures (Chart 16) represent a key instrument of fiscal policy and a driver of economic growth for the 2027–2031 period, aimed at delivering long-term economic benefits through the expansion of public capital, including road and railway infrastructure, energy capacities, water supply and sewage systems, and digital, educational/social infrastructure. In contrast to current expenditures, which mainly support the day-to-day functioning of the economy and social protection, planned capital investments contribute to higher productivity and improved economic competitiveness.

In times of economic uncertainty, capital expenditures serve a stabilising role, as well-prepared and quickly implemented projects can generate countercyclical effects, with a higher multiplier effect on growth and employment, while also boosting private investments. Therefore, the structure of expenditures is as important as the level of the deficit, as a higher share of capital expenditures may reflect higher-quality fiscal policy, provided that projects are economically justified and subject to appropriate control mechanisms.

In terms of fiscal sustainability, capital expenditures planned within a medium-term fiscal strategy ensure predictability of financing, control of public debt, and clear prioritisation. Key elements in the planning of capital expenditure implementation include project selection based on readiness/prioritisation, expected socio-economic impacts, realistic budgeting and implementation timelines, transparent public procurement processes, and continuous monitoring of outcomes.

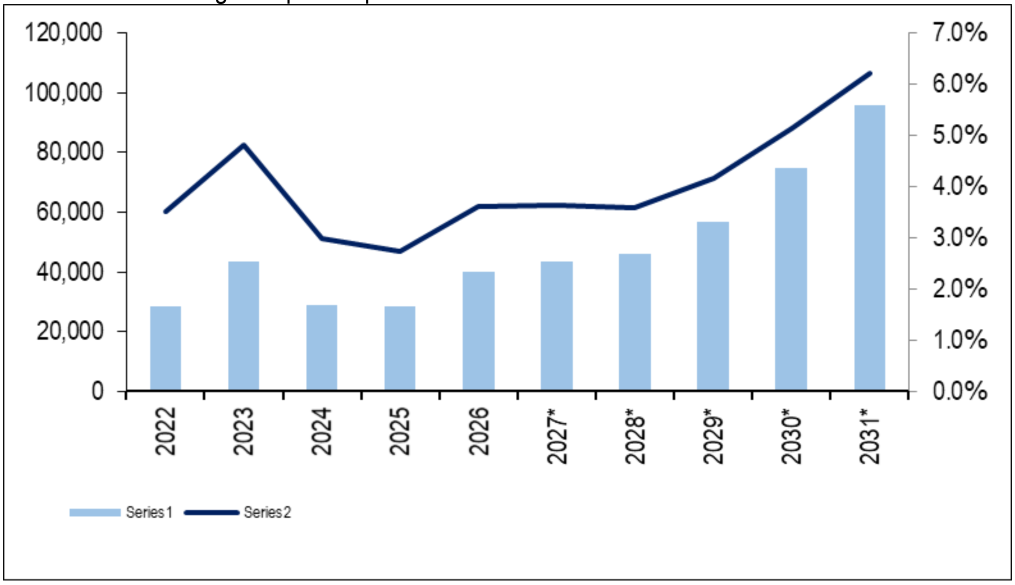
In the 2027–2031 period, fiscal policy will be directed towards creating the preconditions for a new cycle of economic growth, ensuring a substantial level of public investment, which will serve as a basis for improving economic prospects and the quality of life of citizens.

Table 12. 2024-2031 Budget of the Republic of North Macedonia, % of GDP

Budget of the Republic of North Macedonia for 2024–2031, % of GDP

	2024	2025	2026*	2027*	2028*	2029*	2030*	2031*
TOTAL REVENUES	**31.7**	**32.3**	**33.8**	**33.3**	**33.0**	**33.0**	**33.2**	**33.5**
Tax revenues and contributions	**29.4**	**29.5**	**30.3**	**29.6**	**29.8**	**30.1**	**30.4**	**30.8**
Tax revenues	18.5	18.5	19.3	18.8	19.0	19.3	19.5	19.9
Personal income tax	3.3	3.3	3.5	3.4	3.4	3.4	3.5	3.6
Profit tax	2.1	2.1	2.4	2.3	2.3	2.4	2.4	2.4
VAT	8.4	8.4	8.3	8.3	8.4	8.5	8.6	8.8
Excises	3.0	3.0	3.2	3.0	3.0	3.1	3.1	3.2
Customs duties	1.3	1.4	1.5	1.4	1.5	1.5	1.5	1.5
Other taxes	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Tax revenues on own accounts	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.2
Contributions	11.0	11.1	11.0	10.9	10.9	10.9	10.9	11.0
Pension insurance contribution	7.4	7.5	7.7	7.5	7.5	7.6	7.6	7.7
Employment contributions	0.5	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Health insurance contribution	3.1	3.1	3.0	2.9	2.9	2.9	2.9	2.9
Non-tax revenues	**1.8**	**1.9**	**2.6**	**2.7**	**2.5**	**2.2**	**2.1**	**2.0**
Capital revenues	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Foreign donations	**0.3**	**0.7**	**0.7**	**0.7**	**0.5**	**0.5**	**0.5**	**0.4**
TOTAL EXPENDITURE	**36.0**	**36.3**	**37.4**	**36.8**	**36.1**	**35.8**	**36.0**	**36.3**
Current expenditure	**33.1**	**33.6**	**33.7**	**33.2**	**32.5**	**31.7**	**30.9**	**30.1**
Wages and allowances	4.6	4.7	4.7	4.8	4.7	4.7	4.6	4.5
Goods and services	2.4	2.2	2.5	2.4	2.4	2.3	2.2	2.1
Transfers to LGUs	3.2	3.2	3.2	3.1	3.1	3.0	3.0	3.0
VAT grant	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Block grants	2.8	2.8	2.8	2.7	2.6	2.6	2.5	2.5
Subsidies and transfers	3.5	3.1	2.7	2.6	2.7	2.5	2.5	2.4
Social transfers	17.6	18.4	18.6	18.1	17.5	17.0	16.4	15.9
Pensions	9.4	10.4	10.5	10.2	9.8	9.4	9.0	8.6
Transitional costs	1.5	1.4	1.8	1.7	1.7	1.7	1.6	1.6
Unemployment benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Active employment measures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social benefits	1.5	1.4	1.1	1.2	1.2	1.1	1.1	1.1
Healthcare	5.0	4.9	4.9	4.7	4.6	4.4	4.3	4.2
Interest payments	1.8	1.9	1.9	2.0	2.0	2.2	2.3	2.2
Capital expenditures	**3.0**	**2.7**	**3.6**	**3.6**	**3.6**	**4.2**	**5.1**	**6.2**
BUDGET BALANCE	**-4.3**	**-4.0**	**-3.5**	**-3.5**	**-3.0**	**-2.8**	**-2.8**	**-2.8**

Chart 16. State Budget Capital Expenditures



Source: Ministry of Finance and Ministry of Finance's Projections(*)

As per the priorities under the Government's Work Programme, the Government will put focus on the successful implementation of the initiated capital investments. The respective investments will include infrastructure and energy projects aimed at supporting business sector development, as well as capital projects in municipal and other local infrastructure, contributing to improved overall living conditions for citizens. In this regard, efforts will focus on improving conditions in the health, education and social protection systems, as well as in agriculture and environmental protection. In addition, major infrastructure projects will be strategically planned, and capital investments will be characterised by an improved structure and increased funding, particularly through capital transfers to municipalities.

As regards road infrastructure, construction of the Kichevo - Bukojchani motorway section and Kichevo - Ohrid motorway section will continue to be financed with loans. Construction of Skopje - Blace motorway section (border with Kosovo) will also be financed with the previously secured loans, with a particular focus on successful implementation of activities for the improvement of road infrastructure of the municipalities in the Republic of North Macedonia through the Local Roads Connectivity Project, and the Western Balkans Trade and Transport Facilitation Project.

With regard to railway infrastructure, financing is secured for both phases of the construction and rehabilitation of the eastern section of Corridor VIII railway line (Beljakovce–Kriva Palanka–border with Bulgaria), including EUR 68.5 million in grant funding for the second section and EUR 149.2 million for the third section under the Western Balkans Investment Framework (WBIF). Construction of "Tabanovce" rail joint border station with accompanying facilities between the Republic of North Macedonia and the Republic of Serbia, financed with a loan and WBIF grant (Western Balkans Investment Framework), and modernisation of the railway infrastructure will commence as well. Furthermore, under the Freight Rolling Stock Renewal Project, the procurement of up to five electric locomotives is envisaged for the Railways of the Republic of North Macedonia – Transport JSC Skopje, along with the implementation of an enterprise resource planning system aimed at enhancing the company's operational efficiency.

Regarding gasification, construction of national gas pipeline sections, in particular Skopje - Tetovo section, Gostivar - Kicevo section and Sveti Nikole - Veles section is envisaged, as well as construction of Gas Interconnection Pipeline between the Republic of North Macedonia and the Republic of Greece.

Major planned projects in the field of municipal and utility infrastructure include the Municipal Water Infrastructure Project in North Macedonia, together with the implementation of the final phases of the North Macedonia Public Sector Energy Efficiency Project.

In the field of municipal infrastructure, all necessary measures will be taken to ensure the implementation of the Skopje Bus Rapid Transit Project, financed by a loan from the European Bank for Reconstruction and Development (EBRD).

Irrigation Programme North Macedonia and North Macedonia Agriculture Modernisation Project are major capital projects in the field of agriculture.

With respect to environment, in addition to the major capital Skopje Wastewater Treatment Plant Project, North Macedonia Regional Solid Waste Project plays a vital importance, by putting management systems in place, i.e. solid waste stations in the Southwest, Vardar, Pelagonija, Southeast and Polog regions.

With regard to wastewater collection and treatment infrastructure and the establishment of an integrated and financially sustainable waste management system compliant with EU requirements, key capital projects to be financed under the IPA II programmes include: Tetovo Wastewater Treatment Plant and Sewage Network Rehabilitation and Expansion Project, Bitola Wastewater Treatment Plant and Sewage Network Rehabilitation and Expansion Project, Eastern and Northeastern Regions Landfill Closure Project, with construction of a central waste management facility, a sorting plant, a Mechanical Biological Treatment (MBT) plant, a landfill, a composting plant and a green point for the Eastern and Northeastern Regions in Sveti Nikole, construction of six local waste management facilities, each consisting of a transfer station, a composting plant and a green point for the Eastern and Northeastern Regions, support in establishing a regional waste management system, procurement of equipment for the Eastern Region, support and preparation of the necessary documentation for the procurement of water equipment for the municipalities of Radovish, Kichevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo and Prilep.

With respect to education, the activities under the Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools, funded with a CEB's loan and supported by a WBIF grant and co-financed by the state, will proceed, aimed at improving physical education and comprehensive learning conditions for students in both primary and secondary schools. The Government provided an additional loan from the World Bank for the purpose of efficient and effective implementation of reforms in the primary education nationwide, with activities carried out under the existing Primary Education Improvement Project. With respect to higher education, supported by an additional loan from KfW, the reconstruction of student dormitories in the Republic of North Macedonia will continue, aimed at improving accommodation and learning conditions for university students, while the reconstruction of state schools is also planned in order to adapt accommodation and learning conditions for pupils with special needs. Efforts to improve the quality of higher education will include activities to complete the construction of the facilities of the Faculty of Information Sciences and Computer Engineering, as well as to construct a facility for the Faculty of Physical Education, Sport and Health in Skopje.

With respect to social protection, the implementation of the Social Insurance Administration Project and the Second Social Services Improvement Project will continue. With respect to judiciary, activities on construction and reconstruction of Idrizovo Penitentiary will be carried out, all to the end of meeting the international and the European Prison Rules, in support of improved accommodation conditions for the prisoners and their enhanced protection.

As regards energy infrastructure, projects envisaged to be financed are those implemented by North Macedonia Power Plants, JSC (AD ESM) such as: Wind Park Bodganci – Phase 2, District heating System Bitola, ESM Solar PV Transition (10 MW Oslomej 2 Photovoltaic Power Plant and 20MW Bitola Phototovoltaic Power Plant), Rehabilitation Programme for 6 HPPs - 3rd phase, along with 134 MW Bitola 3 Photovoltaic Power Plant.

With respect to public finance reforms, improvement of fiscal framework, strengthening the process of Budget planning and execution, improvement of revenue collection, strengthening the public procurement system, internal and external control and transparent reporting, Building Effective, Transparent and Accountable Public Financial Management Institutions Project, will continue to be implemented.

During the past period, to the end of supporting the private sector and providing fresh capital for the need thereof, seven EIB credit lines, extended through Development Bank of North Macedonia, with the total amount of EUR 650 million, were provided and implemented.

Table 13. Overview of Loan-Funded Projects

Project	Financed by	Loan Amount (EUR)
Western Balkans Trade and Transport Facilitation Project	World Bank	26,200,000
Local Roads Connectivity Project	World Bank	33,000,000
	World Bank	37,000,000
Skopje Wastewater Treatment Plant Project	EIB	68,000,000
	EBRD	58,000,000
North Macedonia's Municipal Water Infrastructure Improvement Project	EIB	50,000,000
Regional Solid Waste Project	EBRD	55,000,000
Public Sector Energy Efficiency Project	World Bank	25,000,000
Second Social Services Improvement Project	World Bank	27,500,000
Social Insurance Administration Project	World Bank	13,800,000
Agriculture Modernisation Project	World Bank	46,000,000
North Macedonia's Irrigation Programme	KfW	80,000,000
Reconstruction of Penitentiary Institutions	Council of Europe Development Bank	46,000,000

Primary Education Improvement Project, with additional financing	World Bank	21,500,000
	World Bank	15,000,000
Building Effective, Transparent and Accountable Institutions for Public Finance Management Project	World Bank	20,000,000
Energy Efficient Rehabilitation of Student Dormitories in North Macedonia, with additional financing	KfW	20,000,000
	KfW	40,000,000
Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools – additional financing	KfW	20,000,000
Freight Rolling Stock Renewal Project for the Railways of the Republic of North Macedonia – Transport JSC Skopje	EBRD	20,900,000
Skopje Rapid Bus Transit Project	EBRD	70,000,000
Rail Corridor 8 - Phase 2 (Eastern Section of Rail Corridor 8 - Beljakovce - Kriva Palanka)	EBRD	145,000,000
Rail Corridor 8 - Phase 3 (Eastern Section of Rail Corridor 8 – Kriva Palanka – Deve Bair)	EBRD	175,000,000
	EIB	175,000,000
Rail Joint Border Crossing - Tabanovce Project	EBRD	5,000,000

2.4.3 State Budget Deficit and Its Financing

Projected deficit, as well as the debt repayments will be financed through foreign and domestic borrowing (Chart 14).

In the course of 2025, Ministry of Finance provided funds to finance the budget deficit and debt repayments through both domestic and foreign borrowing. Foreign borrowing was secured through a loan from the Hungarian EXIM Bank in the amount of Denar 30,748 million the disbursement of tranches under the EU loan through the Reform and Growth Instrument for the Western Balkans in the amount of Denar 2,359 million, and the disbursement of funds under foreign loans for project financing in the amount of Denar 2,343 million. Net borrowing on the domestic financial market through the issuance of long-term and short-term securities amounted to Denar 34,403.15 million in 2025.

As regards financing the budget deficits, in the period 2027 – 2031, the state is expected to borrow abroad, by concluding loan agreements for the purpose of budget financing, issuing securities, as well as disbursement of funds under loans by foreign financial institutions under favourable terms and conditions and credit lines intended for financing certain projects. Thereby, the choice of a specific external financing source will be based on the ongoing and the expected developments on the international capital market. Furthermore, borrowing on the domestic market will be in the form of issuance of government securities or domestic loans, thus providing for additional financing under favourable terms and conditions. For the purpose of optimising the payments and reducing the refinancing risk, Ministry of Finance will continue issuing government securities with longer maturities, thus reducing the debt refinancing risk. To the end of efficiently managing the public debt, over the medium term, Ministry of Finance will also take into account the possibility for early repayment of part of the debt, i.e. determining more favourable debt maturity, currency and interest structure.

Table 14: Deficit Financing

	2024	2025	2026	2027*	2028*	2029*	2030*	2031*
Budget deficit	**-41,901**	**-41,794**	**-39,239**	**-42,424**	**-38,878**	**-38,716**	**-41,237**	**-43,746**
Deficit Financing	**41,901**	**41,794**	**39,239**	**42,424**	**38,878**	**38,716**	**41,237**	**43,746**
Inflows	**80,828**	**121,766**	**116,649**	**107,085**	**128,969**	**78,367**	**119,540**	**86,458**
Domestic sources/borrowing	56,907	60,916	36,114	38,338	47,222	40,946	49,402	32,567
Foreign sources/borrowing	45,062	35,450	85,004	69,279	76,944	39,738	72,581	54,450
Deposits" ("-" is accumulation on account)	-21,141	25,400	-4,469	-532	4,803	-2,317	-2,443	-559
Outflows	**38,927**	**79,972**	**77,410**	**64,661**	**90,091**	**39,651**	**78,303**	**42,712**
Repayment on the basis of domestic borrowing	18,719	16,920	19,936	18,136	26,978	20,682	29,103	24,505

Repayment on the basis of foreign borrowing	20,208	63,052	57,474	46,525	63,113	18,969	49,200	18,207
Memorandum								
Net domestic borrowing	38,188	43,996	16,178	20,202	20,244	20,264	20,299	8,062
Net foreign borrowing	24,854	-27,602	27,530	22,754	13,831	20,769	23,381	36,243

Source: Ministry of Finance and Ministry of Finance's Projections(*)

2.4.4 General Government Budget (Consolidated Budget of the Republic of North Macedonia and Municipal Budget)

General Government Budget incorporates consolidated data on the Budget of the Republic of North Macedonia and the budgets of the municipalities. Budget of the Republic of North Macedonia comprises the central budget (core budget, self-financing activities, funds on the basis of donations and loan funds) and the budgets of the Pension and Disability Insurance Fund, the Health Insurance Fund and the Employment Service Agency. In line with the gradual fiscal consolidation, General Government Budget deficit will reduce from 3.5% of GDP in 2027 to 2.8% of GDP in 2031.

Table 15. General Government Budget

	denar million								% of GDP							
	2024	2025	2026	2027*	2028*	2029*	2030*	2031*	2024	2025	2026	2027	2028	2029	2030	2031
Central Budget																
Income	146,411	155,836	180,016	193,292	210,677	231,470	256,693	284,168	15.2	14.9	16.2	16.1	16.5	17.0	17.7	18.4
Expenditures	190,207	199,081	217,939	235,706	249,546	270,177	297,920	327,903	19.7	19.1	19.7	19.7	19.5	19.8	20.5	21.3
Budget Balance	-43,796	-43,245	-37,923	-42,414	-38,869	-38,707	-41,227	-43,735	-4.5	-4.1	-3.4	-3.5	-3.0	-2.8	-2.8	-2.8
Budget Funds																
Income	126,180	143,352	149,371	158,139	162,957	167,710	172,251	177,106	13.1	13.7	13.5	13.2	12.7	12.3	11.9	11.5
Expenditures	124,346	141,901	150,686	158,149	162,967	167,720	172,261	177,116	12.9	13.6	13.6	13.2	12.7	12.3	11.9	11.5
Budget Balance	1,835	1,451	-1,315	-10	-10	-10	-10	-10	0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
RSM budget (Central Budget and Funds)																
Income	272,591	299,188	329,387	351,431	373,634	399,180	428,944	461,274	28.3	28.7	29.7	29.3	29.2	29.3	29.5	29.9
Expenditures	314,553	340,982	368,625	393,855	412,513	437,897	470,181	505,019	32.6	32.7	33.3	32.9	32.3	32.1	32.4	32.8
Budget Balance	-41,962	-41,794	-39,238	-42,424	-38,879	-38,717	-41,237	-43,745	-4.4	-4.0	-3.5	-3.5	-3.0	-2.8	-2.8	-2.8
Local Government Budget																
Income	50,165	54,941	66,618	69,370	72,082	75,005	77,984	80,839	5.2	5.3	6.0	5.8	5.6	5.5	5.4	5.2
Expenditures	48,884	54,539	66,618	69,370	72,082	75,005	77,984	80,839	5.1	5.2	6.0	5.8	5.6	5.5	5.4	5.2
Budget Balance	1,281	402	0	0	0	0	0	0								
Budget of the General Government (Consolidated Budget of the RSM and Budgets of municipal)																
Income	322,757	354,129	396,003	420,800	445,716	474,186	506,927	542,112	33.5	33.9	35.7	35.1	34.9	34.8	34.9	35.2
Expenditures	363,436	395,521	435,242	463,224	484,594	512,902	548,164	585,857	37.7	37.9	39.3	38.7	37.9	37.6	37.8	38.0
Budget Balance	-40,679	-41,392	-39,239	-42,424	-38,878	-38,716	-41,237	-43,746	-4.2	-4.0	-3.5	-3.5	-3.0	-2.8	-2.8	-2.8

Source: Ministry of Finance and Ministry of Finance projections (*)

2.4.5 Spending Review

In order to comply with the numerical fiscal rules pertaining to the budget deficit for the respective fiscal year, which must not exceed 3% of nominal Gross Domestic Product (GDP), and in line with the obligations arising from the 2024–2027 Reform Agenda, the Ministry of Finance will, in the forthcoming period, commence a spending review process, constituting a significant step towards improving public financial management.

In 2024, a mission on the topic "Spending Review in North Macedonia – rules and draft rulebook for Spending Review" was carried out, organised by the International Monetary Fund. Within the framework of this mission, a draft concept note was prepared, setting out the framework approach for the establishment of the spending review process. The spending review process will continue with support from the World Bank, while the coverage of expenditure areas is being assessed with a view to achieving the target of covering at least 20% of total budget expenditures.

The spending review process serves as an instrument for enhancing the efficiency, effectiveness, and sustainability of public spending, facilitating the optimal allocation of limited budgetary resources in support of economic and social development. The process will serve as a basis for rational planning, the identification of priorities, and the improvement of efficiency in resource allocation.

The analysis will enable a comprehensive review of public expenditures to assess their justification, effectiveness, and potential for reallocation to areas with greater social impact, thereby enhancing transparency, accountability, and the long-term sustainability of public finances. The implementation of the spending review will improve value for money in public spending by placing greater emphasis on the results and impacts of public policies, rather than on expenditure levels alone.

With the amendments to the Organic Budget Law ("Official Gazette of the Republic of North Macedonia" No. 272/2024), the process of spending review related to the implementation of certain budgetary policies has been institutionalised in the legal framework (Article 18, paragraph 3).

2.4.6 Sectoral Approach to Expenditures

Process of creating policies is put into function by adopting the strategic priorities of the Government for the respective year and the preparation of the annual programme. Policies in each area are precisely defined in the three-year strategic plans and annual programmes of the ministries, accompanied by appropriate action plans. The planning process is on parallel and coordinated track with the process of planning financial resource for implementation of policies over the medium term.

The programme approach implies presenting all activities of budget users through appropriate programmes and sub-programmes, defined as a set of related activities aimed at achieving the same, common objective.

The sectoral approach is a process in which the Government, through horizontal planning, institutional coordination, and optimal use of resources, acts in support of improving the existing situation within a specific area and, at the same time, through coherence between costs and results, accomplishes its strategic priorities and creates conditions for more efficient operations of the institutions themselves.

The sectoral approach in this document is based on the Classification of the Functions of Government, developed by the Organisation for Economic Cooperation and Development and published by the United Nations Statistics Division.

Budget appropriations for the fiscal year are allocated in line with the sectoral classification of budget expenditures, which groups expenditures according to the main functional sectors of government activity. This classification provides for consistent planning, execution, and reporting of public expenditure and enhances transparency in the allocation of resources. Funds are allocated across key sectors, including general public services, defence and public safety, economic affairs, environmental protection, housing and community services, health, education, and social protection.

The sectoral structure provides the main framework for assessing the alignment of budget allocations with national priorities and evaluating the effectiveness of government spending. The sectoral basis of budget expenditures represents a functional classification of public spending by the main sectors of government activity. Таа обезбедува транспарентна распределба на финансиските средства, го олеснува оценувањето на ефикасноста на буџетот и овозможува споредливост на податоците за расходите низ фискалните периоди и административните нивоа.

GENERAL PUBLIC SERVICES

This segment incorporates activities and policies implemented pertaining to administration, operations of executive and legislative bodies and their support, public finance management, operations of diplomatic and consular missions, economic assistance, etc.

Through clear, well-reasoned and effective audit recommendations, the State Audit Office, as intendent audit institution of the Republic of North Macedonia, provides support to state and other institutions in improving public finance management systems, contributing to better governance, timely detection and prevention of irregularities, and the strengthening of public trust in institutions. These efforts ensure increased accountability and transparency in the spending public funds/tax payers' money, while also adding value to the public finance management processes. The impartial, professional and integrity-driven approach of the independent audit institution facilitates the improvement of the institutional culture, identification of weaknesses and recommendations for systemic improvements, all aimed at delivery of services by adhering to the principles of reliability in rendering services, continuity and quality of service, transparency, availability, and universal service and protection of users and citizens of the Republic of North Macedonia.

The primary objective in the following medium-term period will be restoring the trust in state institutions, enhancing security, eliminating crime and corruption, and ensuring rule of law. By providing economic freedom to investors and creating fair conditions for all business entities, pre-requirements for a new economic growth cycle, fostered by stable public finances and supported by the competitive private sector and substantial investments in the field of innovations and information technology, will be created. Commitment to the EU integration process will be demonstrated by harmonising the policies with EU Standards.

Higher living standards for the citizens will be the Government's primary objective and top priority. which will be accomplished by wage increase in line with the economic growth, the strengthened revenue collection, the improved efficiency and expediency in public money spending with the major focus placed on capital expenditure execution, tackling public procurement corruption, implementing significant strategic investments in the field of infrastructure and energy, as well as ensuring public debt sustainability.

Informal economy reduction and higher revenue collection will contribute to higher budget revenues, maintaining low tax rates and tax exemptions, higher capital investments and incentives for the operations of domestic private and civil sector.

The quality of public services will be enhanced through digital transformation of the public sector and continuation of the downsizing activities for state administration organisational set-up.

Government will create predictable tax and regulatory environment through an inclusive regulatory change process in all fields vital for businesses and citizens, thus creating pre-requirements for doing business. Digital transformation, innovative approach and new technology application will contribute to more convenient climate for taxpayers and tax officials, based on righteousness, cooperation, transparency and strengthened trust.

Boosted competitiveness of the domestic private sector will be achieved by continuing the financial support for investments and revising the conditions under which such support is provided, thus increasing the amount of support for export-oriented companies and companies in the areas of competitive advantage. A unique registry for state aid will also be introduced, aimed at preventing misuse of financial instruments for support and their dual use.

Activities in the area of scientific and technological development and entrepreneurship support will focus on establishing an efficient and functional national innovation system that enables continuous scientific and technological progress, alongside an effective system for entrepreneurship support. In the forthcoming period, a wide range of activities is planned, including the development of new and improved products, services, and processes; the introduction of innovations and enhancements to technological processes within economic activities; technological modernisation and production preparation for innovation-related activities; the creation of new products, services, and processes; the replacement of manual labour with machinery and software solutions; support measures for self-employment; initiatives aimed at increasing employment levels; and educational programmes for entrepreneurs focused on establishing and managing their own businesses. These efforts will contribute to the creation of a business environment that fosters the growth and sustainability of entrepreneurs and family-owned enterprises, as well as support other related development activities.

DEFENCE

Objective of the defence policy is achieving and protecting the national interests under the Constitution of the Republic of North Macedonia, the conceptual and the strategic documents for security and defence. Common values of the Alliance pertaining to collective defence, crisis management and cooperative security are also shared through the national interests. The defence policy of Republic of North Macedonia is fully aimed at achieving the basic national defence interests: protection of independence, territorial integrity and inviolability of the internationally recognised borders of the state, contribution to the establishment of peace, security and stability in the region, Europe and worldwide, as well as supporting civil society institutions under various situations or conditions of crisis, emergency and war.

By becoming full-fledged NATO member, Republic of North Macedonia achieved one of its most significant strategic goals, both in terms of defence and foreign policy. Moreover, remarkable progress has been made on the road to EU membership in anticipation of the start of accession talks. Development and promotion of good neighbourly relations and regional cooperation continue to be upheld as strategic and long-term objectives of the country's defence policy.

In order to support national security, the defence system of the Republic of North Macedonia must maintain a constant state of preparedness to perform the following defence missions:

- defence of the independence and the territorial integrity of the Republic of North Macedonia and NATO allies,
- strengthening regional and global security and stability by participating in international operations and missions, and
- supporting the civil authorities and the citizens.

Defence financing is one of the most important elements, contributing to the creation of prerequisites for successful strengthening and maintenance of the entire defence system. Moreover, in the past years, a lot of attention was especially paid to the obligation undertaken arising from NATO's commitment to invest in defence by allocating funds accounting for 2% of GDP and a minimum of 20% investment in equipping and modernisation, to be used for financing the defined objectives, tasks, activities and projects, the planned organisational and formational structure, the undertaken international obligations for participation in international operations and missions, the undertaken obligations of fulfilment of the accepted NATO capability targets and equipment and modernisation requirements.

Performance Indicators

	2019	2020	2021	2022	2023	2024	2025	2026
Ministry of Defence Budget (% of GDP)	1.19	1.37	1.57	1.77	1.85	2	2	2.04
Equipping and modernisation	15.39	18.23	23.63	31.81	30.53	29.33	32.35	32.48

The complementary long-term objectives for development of defence capabilities and capacities for the upcoming medium-term period, divided into three groups, are aimed at:

Restructuring and harmonisation:

- harmonising the priorities of the national defence planning with the priorities of NATO defence planning, in order to meet the requested NATO capability targets,
- advancement of the personnel management and talent management system, which will enable attracting, selecting, recruiting, retaining and engaging high-quality, qualified and motivated personnel with adequate professional and work-related competencies in the defence and the Army, and
- building a modern system for education and training of personnel in the defence and the Army, based on competencies, identified needs and enhanced integrity.

Modernisation:

- modernisation and equipping of the Army;
- revitalisation and functional consolidation of optimal locations of defence compounds, facilities, installations and infrastructure and transformation towards green defence,
- advancement of logistic planning and implementation at all levels, and
- upgrading of a communication information system to support management, leadership and control in defence and development of cyber defence capabilities.

Contribution:

- integration in the NATO political and military structure and interoperability in accordance with NATO standards and participation in collective defence, crisis management and cooperative security,
- providing a national support element capability to support the Army in operations abroad,
- provision of host nation support to NATO forces, and
- integrating the national air defence into the air defence system of the Alliance.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of personnel serving abroad as MoD's representatives	33	35	38	40	42	42	42	42
Number of personnel participating in international missions and operations	250	185	250	300	310	310	310	300
Number of projects for construction, reconstruction, adaptation and modernisation of facilities and infrastructure	17	22	23	25	25	25	25	25
Number of men and women on training and professional development abroad	women	women	women	women	women	women	women	women
	38	42	50	55	58	60	60	60
	men	men	men	men	men	men	men	men
	145	150	155	160	165	170	170	170
Number of men and women on training and professional development in the country	women	women	women	women	women	women	women	women
	181	185	190	195	202	200	200	200
	men	men	men	men	men	men	men	men
	315	318	322	325	328	300	300	300

PUBLIC ORDER AND PEACE

Police Affairs

Activities under this policy aim to ensure a high level of safety and security, the protection of the freedoms and rights of citizens, and an improved quality of life in the Republic of North Macedonia. They are aimed at achieving the following objectives:

- implementing public security system,
- preventing forceful destruction of democratic institutions established under the Constitution of Republic of North Macedonia,
- protecting the life, the personal security and the property of citizens,
- preventing escalating national, racial, religious hatred and intolerance,
- preventing committing crimes and misdemeanours, detection and apprehension of perpetrators of crimes and undertaking other special prosecution measures against perpetrators of such crimes, stipulated by law,
- protecting and observing basic freedoms and rights of human beings and citizens, guaranteed under the Constitution, the laws and the ratified international agreements, and
- maintaining public order and peace in the country.

In the upcoming medium-term period, series of activities are planned, contributing to:

- non-selective fight against organised crime and corruption, rule of law reforms and establishment of independent institutions,
- prevention of cross-border crime and illegal migration, and control of readmission, and exercise of the right to asylum,
- increasing the level of public safety, including road traffic safety,
- cooperation and establishment of common standards for cyber security, and
- supporting international peacekeeping efforts by implementing activities related to the preparation for future NATO objectives.

Courts and Penitentiary Institutions

This functional area covers programme tasks and operational activities pertaining to the judiciary, public prosecution, the State Attorney's Office, notarial services, enforcement agents, mediation, the legal profession, free legal aid, inheritance, ownership, rights in rem and contracts and torts, international legal assistance, the execution of criminal and misdemeanour sanctions, the organisation and management of penitentiary and correctional institutions, court expertise and super-expertise examinations, amnesty and pardons, the electoral system and voter registration, criminal, misdemeanour, civil, non-contentious, and administrative proceedings, as well as other matters regulated by law.

Priorities and planned activities are as follows:

- efficient, independent and professional judicial system,
- fight against corruption,
- exercising human rights,
- meeting EU membership criteria in the area of justice,
- ICT upgrading in the justice system, and
- penitentiary and correctional facilities - professionally organised and managed.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Total number of beneficiaries of primary and secondary free legal aid	5.,030	5,329	5,900	6,200	6,500	6,800	7,100	7,200
Number of applicants for free legal aid	women 72 men 158	women 118 men 221	women 85 men 188	women 90 men 199	women 95 men 211	women 100 men 224	women 106 men 237	women 120 men 245
Registered misdemeanours against public order and peace	6,500	6,941	6,000	5,800	5,400	5,500	5,400	5,300

Registered misdemeanours in the field of traffic	165,551	99,828	100,000	100,000	100,000	100,000	100,000	100,000
Prevented illegal crossing attempts	6,809	6,061	5,200	5,100	4,800	4,200	3,500	3,000
Envisioned and implemented trainings	women	women	women	women	women	women	women	women
	382	783	600	800	800	800	800	800
	men	men	men	men	men	men	men	men
	1,489	2,887	2,000	2,000	2,000	2,000	2,000	2,000

ECONOMIC AFFAIRS

Agriculture, Forestry, Hunting and Fishing

Agriculture represents a significant segment of the country's development, contributing to overall economic growth. For the purpose of ensuring stability and providing a basis for agricultural development and modern agricultural practices, a series of activities are being implemented to promote the prudent and sustainable use of natural resources. These measures support the development of primary agricultural and livestock production by observing nature and environmental protection principles, the processing and marketing of agricultural products of both animal and plant origin, and the sustainable economic development of rural areas. They also promote hunting and fishing activities, while ensuring the protection of animal and plant health.

In support of agricultural and rural development, the following activities are planned:

- stable quality food production,
- boosted competitiveness of agriculture sector,
- stable income of agricultural holdings,
- sustainable development of rural areas, and
- optimal utilisation of natural resources by observing the principles of nature and environmental protection.

The strategic goal is to boost the competitiveness of the agricultural sector on the open and dynamic market, while ensuring the development of rural areas via optimal use of the natural resources, i.e. constructing sustainable agricultural and food sector that generates adequate income for farmers. To this end, the following specific objectives are defined:

- boosted competitiveness and increase of farmers' income,
- introduction of new technologies and innovations, thus reducing the adverse climate change impact,
- development of rural areas and keeping the population therein, in particular youth population by investing in both infrastructure and job creation in rural areas.

To ensure a high level of protection of human health, food safety, animal health and welfare, veterinary public health, and environmental protection from animal waste, by adhering to the regulations aligned with the high standards of EU, the system for controlling the safety and quality of food for human consumption and animal feed continues to be strengthened, accompanied by further harmonisation with EU policies related to food safety and veterinary public health.

The objective is to achieve a high level of animal health protection against communicable and other diseases, which includes monitoring and preventing emergence of new diseases in animals and zoonoses in humans in the country, adequate control and supervision of diseases present in the country with their gradual reduction, and maintenance of a system for the control, surveillance and preparedness for suppression and eradication of particularly dangerous communicable diseases.

In the context of planning and managing fishing waters and fisheries, and the management and use of fish and other aquatic organisms and aquaculture, the existing annual programme regularly provides financial support for fisheries, aquaculture, fish processing, technical assistance, and the development of new markets, thereby contributing to the protection of fish stocks in the Republic of North Macedonia.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Export of agricultural products (EUR million)	857	975	1,015	1,055	1,105	1,155	1,205	1,255
Women – Agricultural holding owners (as per the Sole Registry of Agricultural Holdings)	28,720	29,857	29,867	29,877	29,887	29,897	29,907	29,470

Energy, General Economic Affairs and Labour-related Affairs

Strategic priorities and goals in the energy sector focus on sustainable energy development, efficient use of energy and energy resources, meeting society's needs for electricity, heat, natural gas and fuels, promoting cleaner and more efficient energy generation through the rational use of conventional and renewable sources, and improving the management and sustainable use of natural resources. The goal is to ensure a reliable, safe and sustainable energy supply.

In the upcoming medium-term period, country's energy security, just transition and rational use of natural resources will be achieved through:

- increasing the share of renewables in the final energy consumption;
- protecting the environment and fostering energy efficiency;
- ensuring energy efficiency and stability;
- liberalising the electricity market and scaling up investments in the energy sector;
- increasing the use of natural gas and solar energy in households;
- integrating the electricity markets with the countries from the region and EU member-states;
- implementing energy transition process; and
- introducing best available modern practices in the use of mineral resources, including their exploration and exploitation.

In the upcoming period, a set of measures is envisaged, including direct financial assistance to the most vulnerable groups, the promotion of renewable energy sources, and boosting energy efficiency in households.

The policy also focuses on planning, promoting and investing in the exploration of all types of mineral resources, with particular emphasis on rare (critical) minerals, as well as on their exploitation and sustainable use through research and extraction activities and the reclamation of areas depleted of mineral resources.

Hence, the focus is to be on the following priority areas: limiting energy import dependency by diversifying energy supply, saving energy and promoting the use of local resources and renewable energy sources.

Gas supply diversification will be ensured through the construction of the National Gas Pipeline System in the Republic of North Macedonia, aimed at supplying the business sector, the public sector, and households with affordable and environmentally friendly energy, as well as reducing greenhouse gas emissions.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Financial assistance intended for electricity generation by preferential producers using premium	54	66	72	75	75	75	75	75
Concessions for detailed geological investigations	1	10	15	15	15	15	15	10
Concessions for exploitation of mineral resources	7	15	20	20	20	20	20	15

Establishment, development, and promotion of technological industrial development zones (TIDZ) is a significant tool in the economic growth strategies of the Government of Republic of North Macedonia as they enable economic development by attracting foreign and domestic investment, developing and applying new technologies in the domestic economy, enhancing competitiveness, and increasing employment.

Priorities in the upcoming medium-term period cover:

- concluding new agreements for foreign and domestic investments,
- boosted job creation,
- increased export and increased inflow of funds from the companies in TIDZ to the Budget of the Republic of North Macedonia.

In line with these priorities, the Directorate for Technological Industrial Development Zones will focus on attracting new investments and improving basic infrastructure in the TIDZs to enhance conditions for both existing and future investors.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of new agreements for foreign and domestic investments	14	10	10	10	10	10	10	10

Activities in the field of economy and labour aim to create favourable conditions for industrial development, including clustering and the integration of Macedonian companies into global supply chain networks; to strengthen the entrepreneurial sector; to advance integration into the EU single market; to design effective employment measures and policies; to improve labour market functioning and protect workers' rights; and to develop the hospitality sector by improving hospitality standards and providing financial support for investments.

In the upcoming medium-term period, a series of activities are planned to contribute to the following objectives:

- support for development of small- and medium-size enterprises,
- dynamic ecosystem for entrepreneurship and innovation;
- development and boosting of Macedonian economy competitiveness;
- enhancing the concept and practices of social responsibility;
- improvement of consumer protection;
- activities in support of increase in employment;
- financial support for investments projects.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of standards adopted	1722	1675	1500	1500	1500	1500	1500	1500
Number of accreditation applications	224	235	245	255	265	275	285	292

Labour policies include expenditures on activities in the areas of labour relations, employment, and employment levels.

Labour Market and Boosted Labour Force Competitiveness

Employment Service Agency of the Republic of North Macedonia, with its employment centres, develops and delivers services by boosting the labour force competitiveness and meeting the labour market needs, by applying an individual approach tailored to the needs of both unemployed people and employers. This Agency finances the operations from own revenues, as well as transfers from the Central Budget.

Table 16. Budget of the Employment Service Agency of the Republic of North Macedonia Denar million

	2024	2025	2026	2027	2028	2029	2030	2031
REVENUES	**4,402**	**4,787**	**3,181**	**4,953**	**5,297**	**5,665**	**6,059**	**6,481**
Total contribution revenues	4,383	4,764	3,141	4,913	5,257	5,625	6,019	6,441
Budget transfers	0	0	0	0	0	0	0	
Other revenues	19	23	40	40	40	40	40	40
EXPENDITURES	**3,269**	**3,741**	**4,486**	**4,953**	**5,297**	**5,666**	**6,059**	**6,480**
Expenditures by function	2,922	3,375	4,042	4,443	4,765	5,114	5,490	5,883
Unemployment benefit	1,207	1,197	1,500	1,598	1,635	1,653	1,662	1,680
Active employment policies	1,594	2,059	2,390	2,683	2,965	3,294	3,660	4,033
Other expenditures by function	347	366	444	510	532	552	569	597

Under the Operational Plan for Active Employment Programmes and Measures and Labour Market Services, programmes, measures and services are determined, which will provide for job creation, support for job creation and increased employability of the unemployed people, in particular the youth population, long-term unemployed people and beneficiaries of the right to pecuniary assistance and social protection, as well as support for unemployed people.

When implementing the employment programmes and measures, the following basic principles are observed:

- coping with the adverse effects and consequences on the labour market and the employment;
- principle of diversity and inclusiveness for all social categories in the private sector as per the principles of fair and adequate representation of ethnic, gender, religious, racial or any other vulnerable category of citizens, in line with the standards and practices of the United Nations and the International Labour Organisation and

- encouraging balanced regional development in line with the data from the Regional Development Bureau and the degree of development of planning regions in the Republic of North Macedonia.

One of the goals is to reduce long-term unemployment and dependence on guaranteed minimum income by effectively integrating vulnerable groups, in particular beneficiaries of guaranteed minimum income, into the labour market through their inclusion in specialised programmes and services focused on skills development.

Activities are also defined to enable each young unemployed person to re-enter the education system (outside the formal education system) or to participate in active employment measures or services, thereby providing greater opportunities for employment or access to jobs matching their education and skills. Activities include group and individual counselling, providing job search assistance services; motivational trainings and inclusion in any of the labour market integration measures (employment, education and training measures).

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of female beneficiaries of the measure – Support for job creation under the Operational Employment Plan	804	800	800	810	865	900	920	950

Transport

As regards the transport sector, projects and activities are being implemented to develop policies ensuring an accessible, reliable, and sustainable national and international transport system, high-quality urban and construction infrastructure, and effective supervision of the implementation of the relevant legislation. Development of construction activity and transport infrastructure is a driving force of the economic growth of every country, hence the commitment of the Government of the Republic of North Macedonia to finance their development, improvement and modernisation. Thus, the priorities in the field of transport are the following: improvement of the infrastructure network in the Republic of North Macedonia in its entirety, as well as improvement of all segments related to transportation - road, rail, air and inland navigation, as well as enhancing the residential and utility infrastructure. In order to achieve these priorities, the following activities are planned: the construction of new road sections and the rehabilitation of parts of the existing ones; the completion of road and railway infrastructure; the creation of conditions for the efficient transport of passengers and goods; the provision of high-quality and safe transport services; and the construction or reconstruction of water supply and wastewater treatment systems, which will improve the quality of life, particularly in rural areas, and contribute to environmental protection. Local government units also participate in the implementation of these projects.

Digital Transformation

Digital transformation is one of the key drivers of modern economic and social development, and the ICT Development Strategy SMART/MK: 2030 establishes a clear and comprehensive framework for the digital transformation of North Macedonia, focusing on the modernisation of public administration, the development of digital skills, the enhancement of digital infrastructure, and the promotion of innovation. Through the creation of better conditions for connectivity and secure digital infrastructure, the introduction of digital identity systems, the development of electronic services, the establishment of a fully digital environment, the optimisation of administrative processes, support for small and medium-sized enterprises (SMEs), and the advancement and application of artificial intelligence, with cybersecurity embedded as a core element of digital transformation, the state seeks to increase transparency, enhance efficiency, and strengthen economic competitiveness. Accordingly, digital transformation serves as a key instrument for enhancing the management of public resources, reinforcing the fight against corruption, and laying the foundation for sustainable economic development.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of institutions connected to the document management platform	22	30	80	120	160	200	240	280
Number of institutions connected to the interoperability platform	52	80	100	120	140	160	180	200
Percentage of women/men participating in training for public sector employees	/	40%	40%	40%	45%	50%	50%	50%
Number of state universities connected to MARnet	6	6	6	6	6	6	6	6

Public Administration

With respect to public administration, there are ongoing activities in support of effective, efficient and inclusive policy creation by having expert and professional depoliticised administration in place, via responsible, accountable and transparent operations of the respective institutions. Ongoing efforts to modernise public administration and enhance its efficiency are centred on reinforcing managerial accountability and promoting professional conduct, guided by the principles of equality and non-discrimination. In addition, the purpose of the State Administrative Inspectorate is to guarantee that citizens of the Republic of North Macedonia are afforded equal opportunities to exercise and safeguard their rights before state administrative authorities, in full compliance with the principles of the rule of law and legal certainty.

ENVIRONMENTAL PROTECTION

Implementation of policies in support of environment, climate action, spatial planning, as well as ensuring the conditions for sustainable development, waste management, protection of air, water, soil, flora and fauna, while providing monitoring to keep track of the situation regarding the environment, are activities incorporated in the environmental protection policy. The process of determining the strategic and the medium-term objectives, as well as adapting the existing or introducing new practices, are an additional input in the efforts aimed at improving the environment.

These policies are implemented at both national and local level, through adequate measures and activities implemented by different entities from the public and the private sectors so as to achieve the set goals aimed at improving the quality of surface and underground water and ensuring quality drinking water, protection and monitoring of air quality, monitoring and reduction of noise, waste management, protection of soils and prevention of erosion, prevention and reduction of emissions from the industry, protection and sustainable use of biological and regional diversity, and adequate management of protected areas, spatial planning with the aim of sustainable use of land and other natural and manmade resources, institutional strengthening and raising awareness of the importance of the environment for the quality of life and people's health. By implementing these measures, the commitment to development and implementation of effective environmental policies is demonstrated, guided by environmental, economic and political factors at national and international level and applying the principles of sustainable development.

In the following medium-term period, the following major projects will be implemented: Kichevo Sewage Network Rehabilitation and Expansion Project; Construction of sewerage system/network/collector in many localities in the Municipality of Vrapchishte; River Bed Regulation on the River Section Village of Bojane to Village of Glumovo, Municipality of Saraj; preparing the Spatial Plan of the Republic of North Macedonia; Implementation of Phase I of the Zletovica Hydrosystem Project: Water Supply to the Municipalities of Shtip, Sveti Nikole, Karbinci, Probishtip, and Lozovo; Construction of Collector and Faecal Sewerage System in the Municipality of Gostivar, Urban Block 21; Skopje Wastewater Treatment Plant Project, amounting to over EUR 197.2 million, financed with a loan in the amount of EUR 68 million extended by European Investment Bank (EIB), loan in the amount of EUR 58 million extended by European Bank for Reconstruction and Development, technical assistance grant in the amount of EUR 1,429,250, extended as EIB and EBRD support, as well as an investment grant of EUR 69,784,283 extended by WBIF. One of the major priorities, which also constitutes a national priority with respect to EU accession process is the implementation of the Regional Solid Waste Project, to be implemented via EBRD's loan in the amount of EUR 55 million, grant in the amount of EUR 5 million extended by the Switzerland's State Secretariat for Economic Affairs (SECO) and EUR 22.5 million, WBIF's investment grant. `The Project is expected to provide for establishing regional waste management systems in five regions in the Republic of North Macedonia, which is an important step towards a sustainable solution for solid waste management services.

Furthermore, European Investment Bank (EIB) provided a loan in the amount of EUR 50 million for financing the construction of water supply systems, water supply networks, etc., in all municipalities in the Republic of North Macedonia.

Ministry of Environment and Physical Planning has also provided funds for infrastructural projects in the field of environment. Funds will be distributed to local government units as capital grants in accordance with the adopted decisions by the Government of the Republic of North Macedonia.

Within the IPA Programme, implementation of several projects will continue, including Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Bitola, Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Tetovo.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Water-supply networks construction (in meter length)	30,000	45,000	47,352	48,484	49,258	55,268	50,251	47,500
Sewerage networks construction (in meter length)	27,500	48,000	41,254	41,568	42,567	46,555	43,663	49,400
Number of prepared survey reports for environment protection	560	510	530	540	550	570	575	525

HEALTH

Health policy is aimed at improving the effectiveness of, and the level of citizens' satisfaction with the functioning of the sector, as well as at improving the health services.

Priorities under this policy in the period 2027-2031 are as follows:

- care pertaining to citizens' health;
- maintaining stable health care system, and
- increasing both the volume and the accessibility of health care services.

Cornerstone of the health-care system in the Republic of North Macedonia is the primary health care oriented towards the individual, the family, and the community, with an emphasis on preventive health care and meeting the majority of population's health needs.

Under this policy, activities aimed at improving the health-care infrastructure and the conditions for better health care of the population are being implemented. Investment activities are directed toward the purchase of medical equipment for the needs of the PHIs in the country, construction, reconstruction and extension of the PHI facilities, as well as preparation and implementation of the Construction and Reconstruction of Shtip, Tetovo and Kichevo Hospitals Project.

Within the preventive and curative health care, activities are undertaken with the aim of achieving better communication and providing quality health care services. Moreover, activities of the preventive programmes are aimed at:

- prevention of cardiovascular diseases,
- systematic examinations of pupils and students intended for complete prevention of deformities, detection of bad habits and detection of individual diseases among the entire school and student population,
- activities for organising and promoting blood donation,
- immunisation of the population through procurement of vaccines,
- activities related to early detection of persons with probable brucellosis,
- continuous procurement of medicines for tuberculosis patients and protection of the population against AIDS,
- active health care of mothers and children, and
- early detection of malignancies accomplished with the activities of gynaecologists to call for a PAP test and screening for cervical cancer in women, screening activities for both colon cancer and breast cancer.

Activities carried out within the curative programmes are aimed at:

- setting up free examinations points in squares and rural areas, free examinations aimed at prevention of heat waves-related conditions within the framework of the Health for All Programme,
- health care for persons with mental disorders,
- supply of methadone and buprenorphine, as well as a treatment of persons with substance use disorder, covering the costs of patients on dialysis treatment, and activities pertaining to patients with haemophilia,
- procurement of drugs for the treatment of rare diseases, and
- procurement of insulin, insulin needles, glucagon, sugar measuring strips and pumps for continuous supply of insulin for insulin-dependent patients.

Health Insurance

Health Insurance Fund of North Macedonia is established for the purpose of implementing mandatory health insurance, as an institution performing activity of public interest and public authorisations stipulated by the respective Law.

Health Insurance Fund allocates funds for the primary health care, the network of health care institutions and financing the health care sector, based on prices of health care services. i.e. programmes and agreements for providing health care to insured persons.

Health Insurance Fund finances its operations from its own revenues (wage contributions) and transfers from the Central Budget.

Table 17. Budget of Health Insurance Fund — Denar million

	2024	2025	2026	2027	2028	2029	2030	2031
Total revenues	**48,831**	**51,203**	**54,691**	**57,114**	**59,387**	**61,669**	**63,955**	**66,253**
Revenues generated on the basis of wage contributions	29,849	32,429	32,874	35,175	37,286	39,523	41,894	44,408
Budget transfers	8,572	8,587	7,270	6,481	6,259	5,914	5,461	4,886
Other transfers	10,410	10,187	14,547	15,458	15,842	16,232	16,600	16,959
Percentage share of budget transfers in total revenues	18	17	13	11	11	10	9	7
Total expenditures	**48,515**	**51,491**	**54,691**	**57,114**	**59,387**	**61,669**	**63,955**	**66,253**
Health care protection	42,399	44,501	48,213	49,423	51,423	53,423	55,423	57,423
Sick leave compensations	5,350	6,158	5,600	6,676	6,904	7,144	7,396	7,657
Other expenditures	766	832	878	1,015	1,060	1,102	1,136	1,173

The table indicates the revenue growth throughout the years, with health insurance wage contributions and transfers from the Ministry of Economy and Labour related to maternity leave accounting for the most of the Fund's revenues. As regards revenues generated on the basis of wage contributions, they also include the health contributions for unemployed persons paid by the Employment Service Agency of Republic of North Macedonia, health contributions for beneficiaries of social assistance paid by the Ministry of Social Policy, Demographics and Youth, health contributions for pensioners paid by the Pension and Disability Insurance Fund and health contribution for uninsured persons paid by the Ministry of Health.

Public Health Institutions

The basic health services package is divided into the following categories: primary health care, specialist-consultative health care and hospital health care. As a purchaser of health services, the Fund signs contracts with health institutions for the type and the volume of health services.

PHIs' revenues include the revenues collected by the Fund, funds from health care programmes, their own revenues and donations.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of performed controls (control of contributions, co-payments and wages, sick leave, treatment abroad, control check-up in public health institutions, specialised hospitals, pharmacies and private doctor's offices)	7,428	7,844	7,900	7,900	7,900	7,900	7,900	7,900
Number of concluded agreements with private health institutions, public health institutions and pharmacies	3,825	4,181	4,200	4,250	4,300	4,350	4,400	4,450
Percentage share of private costs for health purposes in the total health costs of the country	Below 45%	Below 45%	Below 45%	Below 45%	Below 45%	Below 45%	Below 45%	Below 45%

RECREATION, CULTURE AND RELIGION

Sports and Recreation Services

In the field of sports, activities are being implemented, related to development and popularisation of sports, by increasing the percentage of citizens who play sports, improving the quality of national and international sports, creating a system, wherein professional sports and sports results will be promoted, strengthening the quality of life, social interaction, personality development and a healthy lifestyle for as many citizens as possible, providing a high-quality sports infrastructure, increasing the number of athletes and improving sports results, promoting gender equality in all areas of social life and including the gender perspective in the policy making and budget creation, as well as inclusive inclusion of persons with disabilities in all segments of sports.

Culture-Related Services

As per the Law on Culture, culture covers three segments as follows: works, as a process of creating works of art, activities related to publication of works of art, as well as activities aimed at protecting and using the works. Hence, tasks and obligations arising from the prescribed specific competences are detected in the following areas:

- activities in the field of culture and arts;
- promotion of culture, cultural development and cultural policies;
- international cooperation and cooperation with UNESCO;
- cooperation with the EU institutions and integration of the European values;
- organisation, development and funding of culture activities;
- monitoring, analysing and proposing acts and measures for development and promotion of culture;
- protection, management and revitalisation of cultural heritage;
- exercising and protection of the copyright and the related rights;
- supervision by an entity in charge of culture activities and
- preparation of regulations and other acts in the field of culture.

Financing of the national interest in the field of culture is carried out pursuant to the Law on Culture, whereby the operations of the national institutions in the field of culture are financed and participation is taken in financing projects of national interest in the field of culture of other legal entities and natural persons in the following activities: publishing activity, library activity, music and theater, film, folklore, cultural events and visual arts, architecture and design, protection of cultural heritage, museum activities, international cooperation and EU integration.

Investments in the Field of Culture

Particular attention is paid on improving the working conditions of artists by building new facilities and investing in national institutions related to culture. Construction of the Turkish Theater in Skopje, the Theater and the Library in Tetovo, as well as the construction of the theater in Strumica, the reconstruction of the Culture Center in Kumanovo, the reconstruction of the Culture Center “ASNOM” in Gostivar, reconstruction of the Culture Center “Beli Mugri” in Kochani, and the reconstruction of the roof of the old part of the building of the National and University Library “Sv. Kliment Ohridski” in Skopje, are being financed.

In the next period, investments will continue to be made, all to the end of improving the infrastructure in the field of culture, thereby reconstructing the following facilities: Museum of the Republic of North Macedonia, National Gallery of Macedonia, Culture Center “Anton Panov“ in Strumica, Culture Center “Marko Cepenkov“ in Prilep, Culture Center in Bitola and the National Theater in Bitola, as well as “Partizan” cinema within the National Theater Bitola.

Religious and Other Services of the Community

As regards religion, the ongoing activities pertain to the legal status of churches, religious communities and religious groups, as well as the affairs referring to the relations between the state and churches, the religious communities and the religious groups. Actions are being taken upon various issues of relevance for the state, the religious communities and the religious freedoms and rights of citizens, actively contributing to the improvement of interfaith relations and fostering high standards of dialogue and respect.

Priority activities are focused on protecting the principle of secularism, accompanied by advanced religious freedoms and rights, as a foundation for stable, inclusive and democratic society. To that end, the following priority objectives of the Programme stand out:

- Protection of the principle of secularism and advances religious freedoms and rights;

- Continuous promotion of the needs of the religious communities and further strengthening of the already established cooperation;
- Promotion of cultural and religious values in the Republic of North Macedonia both domestically and internationally, fostering amicable neighbourly relations and strengthening bilateral cooperation.

In this respect, during the forthcoming fiscal period, a series of coordinated activities and projects will be implemented, aimed at effective fulfilment of the set priorities and objectives. These activities will be oriented toward the reinforcement of institutional cooperation, the advancement of religious freedoms, and the encouragement of interfaith dialogue and societal cohesion. Particular emphasis will be placed on the implementation of the Strategy for the Development of Religious Tourism and the Support of Active Monasteries, through which the rich cultural and spiritual heritage shall be valorised, thus enhancing the visibility of religious sites, and boosting the local economic growth, thereby contributing to the advancement of the nation's overall tourism offering. At the same time, sustained support will be ensured for active monasteries and religious facilities, with the aim of safeguarding their spiritual, cultural, and historical role.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of carried out events and festivals in the field of publishing activity, music and theater, folklore, and events by specific public calls	27	25	94	94	94	29	94	94
Scope of citizens engaged in sports activities	16%	18%	18%	19%	19%	20%	20%	21%
Number of implemented inter-disciplinary projects with gender component in support of improved status of the woman in the society and the number of women – applicants for projects	32	35	36	20	35	40	45	50

EDUCATION

Policies implemented by the Government of the Republic of North Macedonia as regards upbringing and education of all types and degrees are aimed at providing comprehensive, inclusive and integrated education focused on the participants in the upbringing and educational process, accompanied by modern programmes that provide for future generations to acquire knowledge, skills and competencies as per the needs of the democratic multicultural society, the labour market and the new challenges in the global scientific and technological environment.

2026-2032 Education Strategy of the Republic of North Macedonia is the basis of the activities implemented by the respective institutions in the field of education in the next medium-term period, with the existing conditions in the education system as a starting point, being aimed at their gradual improvement, as per the set priorities.

As regards this policy, a series of measures and activities are being implemented, pertaining to adult education, organisation, financing, development and promotion of education, upbringing and science, upbringing and education of children with special educational needs and children of workers temporary working or staying abroad, verification of professions and specialisations in education, improvement of high-school and university students' standard, technological development and innovation support, information technology and technical culture, development of digital skills and other activities related to education. Via monitoring, expert insight, research, promotion and development of the upbringing and educational activity in the field of preschool, primary, high-school and artistic, secondary vocational and post-secondary education, education for children with special educational needs and the adult education, upbringing and educational process of the pupils' dormitories, as well as the education of the children of the citizens of the Republic of North Macedonia abroad aimed at learning the mother tongue and culture, the educational system is being improved.

There are ongoing activities geared towards promoting the adult education, coordinating the cooperation with the international institutions and other organisations related to adult education, ensuring quality, particularly by setting standards and criteria for formal and informal adult education, validation of non-formal education and informal learning. Various types of student assessments are organised, also including the international tests (Programme for International Student Assessment - PISA, Trends in International Mathematics and Science Study - TIMSS, International Civic and Citizenship Study - ICSS, Progress in International Reading Literacy Study - PIRLS and others). The inspection surveillance, as well as the implementation of an integral evaluation provides for determining the observance of the legal regulations related to education and quality of the upbringing and educational process in all educational levels.

Activities in the medium-term period are aimed at accomplishing the following priorities:

- creating education in the best interest of children, which allows each student to reach their full potential;
- ensuring high-quality and inclusive higher education and improving the student standard;
- scaled-up investments and development of science, research and innovations and
- improving the lifelong learning system.

For the purpose of accomplishing these priorities, activities will be undertaken so as to improve the contents and increase the accountability in the primary and secondary education, increase the scope of pupils and students and improve the inclusion and inter-ethnic integration, improve the learning conditions and the accomplishments of pupils and students, invest and develop digital skills and critical thinking, harmonise the vocational education and training with the labour market needs, develop regional centers for vocational education and training, modernise the adult education system line with the lifelong learning prospects, develop new model for financing the primary and secondary education with a new formula for distribution of block grants with determined cost per pupil calculated on the basis of standards, optimise the school network, ensure quality and effectiveness of higher education as per the European sound practice, develop a new model for financing the higher education, improve the higher education accreditation and evaluation system, improve the student's life and increase the living standard of the youth population and implement measures leading to easier first employment thereof, as well as keep them in the country, improve the high-school and university students' standard, invest in better conditions in the students' dormitories, energy efficient reconstruction of student dormitories, increase the national funds for research activity, strengthen the international cooperation in the field of science, research and innovations, implement the Smart Specialisation Strategy, enhance the formal adult education system, develop the system for validation of non-formal and informal learning.

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Trained career advisor in primary and secondary schools	0	0.5	70% of primary and secondary schools	0.8	0.9	0.95	99%	100%
Fully operational regional centers for vocational education and training	5	5	6	7	8	8	8	8
Enrolled students in the regional centers for vocational education and training	400	550	700	800	850	900	950	1000
Inclusion of the private sector (number of companies) in dual and secondary vocational education for the purpose of acquiring competences required on the labour market	600	650	660	670	680	690	700	850
Number of pupils included in workplace leaning in secondary vocational education, 30% of whom should be girls	2000	2300	2600	3000	3100	3200	3200	3300
Number of programmes for validation of non-formal education and informal learning	8	10	13	16	17	18	20	20
Percentage of accredited public and private institutions of higher education, having established fully-operational quality assurance systems (internal and external), and publishing reports on quality assurance harmonised with ESG2015	60%	70%	80%	90%	95%	97%	99%	100%

Increased amount for scientific and research activity as percentage of GDP	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1%	1.10%

SOCIAL PROTECTION

Policies related to social affairs include expenditures for activities in the field of social policy, pension and disability insurance; providing resources for the temporarily unemployed people; humanitarian policy for the sake of harmonised economic and social development; protection of children and minors; protection of youth and women; protection of persons with development impairments and others.

Under this policy, activities are being implemented, which are geared towards improving the social services, whereby the investments are intended for construction, reconstruction and extension of the social protection facilities and the elderly homes, as well as realisation of projects financed with loans. Activities under the respective programmes are aimed at:

- providing social protection;
- protecting children and
- financing the programme activities of the national disability organisations, their unions and associations combatting family violence, the Red Cross of the Republic of North Macedonia, etc.

Pension and Disability Insurance

Law on Pension and Disability Insurance governs the mandatory pension insurance of employees and individuals performing an activity, the bases of fully-funded pension insurance, as well as the special requirements under which certain categories of insurees exercise the rights to pension and disability insurance. Pension and Disability Insurance Fund finances the operations from own revenues and transfers from the Central Budget.

Pension system in the Republic of North Macedonia rests upon three pillars:

- First pillar - ongoing financing system, insurance based upon generational solidarity;
- Second pillar – mandatory fully-funded pension insurance and
- Third pillar – voluntary fully-funded pension insurance.

When projecting the pension-related expenditures, the existing legal regulations are taken into account, as per which the insured person acquires right to old-age pension when he/she turns 64 years of age (men), i.e.62 years of age (women) and at least 15 years of pensionable service (tenure).

Table 18. Budget of the Pension and Disability Insurance Fund of North Macedonia Denar million

	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Total revenues	**115,693**	**133,446**	**150,937**	**157,723**	**161,916**	**166,228**	**170,379**	**174,524**
Wage contributions	69,077	75,110	83,234	87,000	93,090	99,606	106,579	114,039
Budget transfers	**42,474**	**53,864**	**62,818**	**65,232**	**62,986**	**60,411**	**57,197**	**53,460**
Other revenues	4,142	4,472	4,885	5,491	5,840	6,210	6,603	7,025
Percentage share of budget transfers in total revenues	37	40	42	41	39	36	34	31
Expenditures	**115,247**	**132,753**	**150,947**	**157,733**	**161,925**	**166,237**	**170,389**	**174,534**
Pensions	90,646	107,850	116,820	121,931	124,736	127,605	130,284	132,890
Transitional expenditures to private Funds	14,218	14,869	19,600	20,580	21,609	22,689	23,824	25,015
Other expenditures	10,383	10,034	14,527	15,222	15,581	15,943	16,281	16,629

Table 19. Pension beneficiaries by years

	2021	2022	2023	2024	2025	March 2026
Pension beneficiaries	328,570	334,816	337,814	345,794	348,795	349,390

Table 20: Average pension in the Republic of North Macedonia, by years

Year	2020	2021	2022	2023	2024	2025	March 2026
Average pension	15,483	15,876	17,727	20,195	23,785	27,167	28,120

Tables show the upward trend of the Fund's revenues, whereby revenues generated on the basis of wage contributions accounted for the most in the revenue structure, while Central Budget revenues accounted for 40% in 2025. In addition, one can observe a percentage reduction of the transfer from the Central Budget to 31% in 2030.

As per the amendments to the Law on Pension and Disability Insurance in 2022 ("Official Gazette of the Republic of North Macedonia", no. 67/2022), the manner of pension indexation was changed, i.e. old-age pension indexations were carried out as per the trends of the Consumer Price Index, accounting for 50% and the increase in the average wage paid to all employees in the Republic of North Macedonia, accounting for 50%. Pension is indexed on 1st March and 1st September every year as per the percentage obtained as a sum of the increase in the Consumer Price Index in the previous half of the year and the percentage increase in the average wage paid to all employees in the Republic of North Macedonia in the previous half of the year in relation to the previous half thereof.

As per the Law on Modifications and Amendments to the Law on Pension and Disability Insurance as of September 2024, on 1st September 2024, all types of pensions paid pursuant to this Law as of 31st August 2024 inclusive, have been increased by Denar 2,500 and on 1st March 2025, all types of pensions paid pursuant to this Law as of 28th February 2025 inclusive, have been increased by Denar 2,500.

Modifications and Amendments to the Law on Pension and Disability Insurance are aimed at ensuring higher living standard, as well as better-quality life for pensioners.

As per the Law on Modifications and Amendments to the Law on Pension and Disability Insurance as of September 2025, the indexation of all types of pensions, paid in the Republic of North Macedonia on 1st September 2025, and 1st March 2026, is carried out in a way that that the total sum obtained from the percentage of pension increase, calculated as the sum of 50% of the increase in the Consumer Price Index and 50% of the rise in the average wage paid to all employees in the Republic of North Macedonia during the previous half-year compared to the preceding half-year, as published by the State Statistical Office, is divided by the total number of pension beneficiaries who acquired the right to a pension as of 31st August 2025, i.e.28th February 2026, respectively.

As per the Law on Modifications and Amendments to the Law on Pension and Disability Insurance as of March 2026, all types of pensions paid pursuant to this Law as of 28th February 2026 inclusive, have been increased by Denar 1,000 on 1st March 2026.

Table 21: Pension indexation percentage

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1st January	0.82	1.69	0.7	0	1.2	2.9	8.4	5.3	Linear by Denar 2,500	Linear by Denar 1,000
1st July	0.76	1.8	0.4	0.6	1.2	6.8	5.3	Linear by Denar 2,500	Linear by Denar 1,036	

Law on Mandatory Social Insurance Contributions governs the types of mandatory social insurance contributions, entities in charge of paying the contributions, entities in charge of calculating and paying the contributions, bases upon which contributions are paid, contribution rates, manner of calculation, payment deadlines as regards the contributions, control over the calculation and payment of contributions, as well as other issues of relevance for determining and paying the contributions.

Mandatory social insurance contributions include the following:

- pension and disability insurance on the basis of current payment;
- mandatory fully funded pension insurance;
- pension service with extended duration;

- health insurance and
- unemployment insurance.

As regards the percentage allocated for payment of pension insurance contributions, it dropped throughout the years, i.e. from 21.2% in 2008 to 18.8% in 2020, also being valid in 2024.

Table 22: Percentage of mandatory insurance contributions

Percentage of contributions	Mandatory pension and disability insurance	Mandatory health insurance	Employment	Additional health insurance	Total
2008	21.2	9.2	1.6	0.5	32.5
2009	19	7.5	1.4	0.5	28.4
2010-2018	18	7.3	1.2	0.5	27
2019	18.4	7.4	1.2	0.5	27.5
2020	18.8	7.5	1.2	0.5	28

Performance Indicators

Output indicators	2024	2025	2026	2027	2028	2029	2030	2031
Number of decisions prepared for ensuring the rights under pension and disability insurance	32,080	31,755	32,000	32,100	32,200	32,300	32,400	32,600
Number of beneficiaries of parenting payment for third child	18,477	15,355	12,661	10,413	7,969	7,517	7,065	5,517

2.5 Local Government Budget

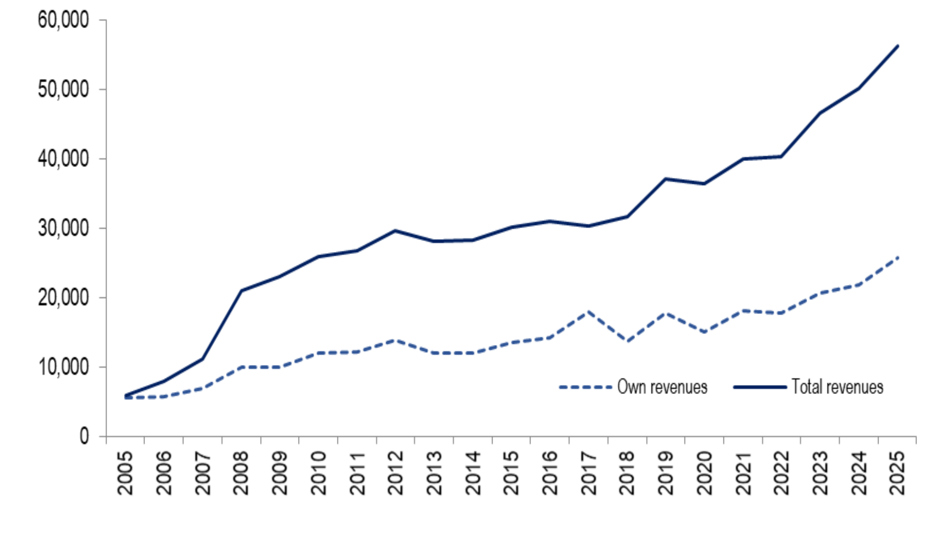
2.5.1 Local Government Budget

Decentralisation in Macedonia is a process of transferring competences and responsibilities from the central government to local governments, aiming to improve the effectiveness of governance and ensure more accountable and transparent functioning of local authorities. The process of decentralisation is closely linked to Macedonia's efforts to join the European Union. Within the EU Accession Partnership, Macedonia committed to continuing the decentralisation process and improving local government as part of the reforms required to meet the criteria for membership in the Union. The assumption of responsibilities by municipalities in Macedonia is a key aspect of the decentralisation process, which began after 2005 by implementing the reforms determined under the Framework Agreement. Decentralisation in Macedonia is regulated by various laws and acts, including the Law on Local Government and the Law on Financing of Local Government. These Laws define competencies, responsibilities, and rights of local authorities. Starting 2012, all municipalities (except for Plashnica) have been financing the transferred competences in the field of education, culture, child care and social protection through block grants provided from the Central Budget. Along with transferring these competences, tangible and financial resources were also transferred to the municipalities, being required for their efficient management.

Transfer of competences in several areas by municipalities resulted in substantial increase of administrative and fiscal capacities. This process directly contributed to strengthening the municipalities' capacity to manage a larger volume of financial resources. Additionally, through efficient administration and collection of their own revenues, municipalities are experiencing continued increase in their own revenues, strengthened capacities to manage the financial resources, more efficient and higher-quality execution of the transferred competences, and improved management of financial and other resources. In addition to the aforementioned transferred competences, municipalities are effectively managing newly assigned competences related to construction land management and handling with illegally built facilities, providing not only for improved management of urban development but also generating additional revenues for municipal budgets. Successful implementation of fiscal decentralisation has fully set the legal and institutional framework for creating developed, accountable, functional local government units, as well as an enhanced level of local democracy, thereby bringing citizens closer to the institutions. Decentralisation process has been positively evaluated by numerous international institutions, which have significantly contributed to improving governance systems, enhancing oversight and increasing transparency, and increasing coordination in managing local government reforms through the implementation of various projects. At the same time, alongside the acknowledged progress in fiscal decentralisation, additional reforms are recommended to increase fiscal transparency, efficiency of tax administration, and strategic planning at local level.

By improving the borrowing terms and conditions and determining more liberal and transparent conditions, access to the capital market has become more affordable for municipalities, resulting in increased municipal interest in financing investment projects through borrowing. Accordingly, municipalities have greater opportunity to provide funding for development projects and infrastructure initiatives, thereby enhancing their role in the country's economic development.

Chart 17. Own and Total Revenues in the period 2005 - 2025 (Denar million) [4]



Source: Ministry of Finance

Republic of North Macedonia, according to the data on 2025 expenditure execution (around 5% of GDP) belongs to the group of countries with medium degree of decentralisation. Fiscal decentralisation process commenced in 2005, and since then, municipal revenues have increased over ninth times. In 2005, municipalities generated Denar 5.9 billion, while in 2025, this amount increased to over Denar 56 billion. What is exceptionally important is that own revenues in the Core Budget increased by five times, whereby tax revenues the municipalities independently collect have tripled over the same period (see Chart 18).

Municipalities in the Republic of North Macedonia are financed from diverse sources of revenues, including: own revenues, grants for the transferred competences (education, culture, social protection and firefighting), revenues determined in separate laws, transfers from the Budget of the Republic of North Macedonia, revenues on the basis of taxes, transfers for capital projects, as well as donations and loans. These funds provided financial assistance for local government units and their development activity.

Funds from the Budget of the Republic of North Macedonia are transferred to the municipalities, such as: capital transfers, earmarked and block grants for transferred competences in the filed of education, culture, social protection and firefighting. Allocation of funds is carried out according to criteria determined in the decrees adopted by the Government of the Republic of North Macedonia, based upon proposal by the relevant ministries.

Increased transparency is aimed at strengthening fiscal accountability, ensuring timely public engagement in creating municipal policies, and providing information on the work done by municipal authorities. For the purpose of increasing both transparency and accountability, municipalities need to publish financial statements in a clear and comprehensible manner, thus increasing accountability as regards the use of budget funds. This will support the lawful, purposeful, and effective use of public funds, which is essential for attaining municipal growth and development. This will result in more efficient service delivery for citizens and an improved quality of life in the municipalities.

2024–2028 Work Programme of the Government of the Republic of North Macedonia as regards the local government, focuses on improving infrastructure, increasing transparency and accountability, and fostering economic development at local level. These initiatives are aimed at ensuring lawful, purposeful, and effective use of public funds, as well as creating conditions for improving the quality of life of the citizens.

[4] In line with the submitted data under the municipal annual financial statements.

2.5.1 Performance in 2025 and 2024

In 2025, total revenues of local government units in the Republic of North Macedonia were collected in the amount of Denar 54,910 million, picking up by 13.7% compared to the revenues collected in the previous year. Out of the total revenues, Denar 13.650 million are tax revenues, surging by 3% compared to the previous year, accounting for 24.9% of total revenues collected by the municipalities. Amendments to the Law on Financing of Local Government Units as of 2022 impacted the revenues on the basis of personal income tax, reaching Denar 1,410 million in 2025, increasing by Denar 133 million or 10.4% more compared to 2024.

In 2025, non-tax revenues amounted to Denar 1,616 million, increasing by 8.3% compared to the previous year, accounting for 2.9% of total municipal revenues. In 2025, capital revenues were collected in the amount of Denar 2,310 million, significantly decreasing by 55% compared to the previous year, accounting for 4.2% of total revenues.

In 2025, transfers accounted for the most of total municipal revenues, accounting for 67.1% of total collected revenues. Transfers were executed in the amount of Denar 36,860 million, surging by 17,1% compared to the previous year. Within transfers distributed from the Budget of the Republic of North Macedonia, in 2025, significant increase in the amount of block and earmarked grants was recorded, rising by Denar 2,306 million, or approximately 8.7% compared to 2024. This increase is a result of the wage growth, as well as the higher amount paid for the vacation allowance for all employees in local public institutions. Additionally, VAT grant increased by Denar 686 million in 2025, registering a 16.3% increase compared to the previous year. In 2025, transfers from the Budget of the Republic of North Macedonia, the budgets of the Funds, and other levels of government, amounted to Denar 3,196 million, thus significantly increasing by approximately 300%, primarily due to the payment of transfers intended for capital investments under the two calls for the Subprogramme “Infrastructure Projects in the Municipalities” in 2024 and 2025.

In 2025, revenues on the basis of donations amounted to Denar 474 million, decreasing by 19.4% compared to 2024. Their share in the total municipal revenues accounted for only 0.9%, making this revenue category insignificant compared to the other revenue sources.

In 2025, domestic borrowing of municipalities amounted to Denar 29 million, being a significant reduction compared to Denar 46 million in 2024. This reduction by Denar 17 million or 37% demonstrated favourable changes as regards the local government financial management. Increased central government transfers in 2023, 2024 and 2025, and intensified implementation of capital investments contributed to reducing the need for borrowing. Decline in domestic borrowing reflects a positive trend in the financial stability of municipalities, indicating a reduced dependence on crediting. This, in turn, lowers the risk of accumulating additional debts and enhances their long-term fiscal capacity.

In 2025, total expenditures of municipal budgets were executed in the amount of Denar 54,539 million, being higher by 11.5% compared to last year.

In 2025, current expenditures of municipalities amounted to Denar 44,578 million, accounting for 81.7% of total expenditures, Denar 30,396 million out of which was paid for wages and allowances for employees in the municipality and the local public institutions. These expenditures grew by 11.3% compared to last year, accounting for the most of the total expenditure structure with 55.7%. The increased level of these expenditures was primarily a result of the following: the increase in the minimum wage and the payment of vacation allowance for municipal administration staff and employees in local public institutions, as stipulated by the provisions of the General Collective Agreement, branch-level collective agreements, and employer-level collective agreements.

Expenditure reserves and non-defined expenditures were executed in the amount of Denar 64 million, increasing by 77.8% compared to 2024. Although these expenditures recorded significant growth, their share in the total expenditures is insignificant, accounting for only 0.1% of the total Budget.

In 2025, expenditures related to goods and services were executed in the amount of Denar 9,671 million, slightly increasing by 1.2% compared to 2024. They accounted for 17.7% of total expenditures, being a substantial portion of the overall expenditure structure.

Expenditures related to interest payment recorded significant decrease of 25.5% compared to those executed in 2024. However, their share in the total expenditures was negligible, accounting for only 0.1%.

In 2025, expenditures related to subsidies and transfers were executed in the amount of Denar 4,284 million, surging by 19.2% compared to the previous year, accounting for 7.9% of total expenditures.

In 2025, expenditures related to social benefits were executed in the amount of Denar 90 million, significantly surging by 21.6% compared to the previous year, accounting for 0.2% of total expenditures, thus recording insignificant share thereof.

In 2025, municipal capital expenditures were executed in the amount of Denar 9,961 million, increasing by 20.7% compared to last year. This increase was primarily attributable to the revenue collection from the Central Budget allocated for capital investments, which municipalities received in 2024 and 2025. Increase in capital expenditures indicates a favorable investment climate and scaled-up investments at local level. Their share in total expenditures accounted for 18.3% in 2025, reflecting 1.4 percentage point increase compared to their share of 16.9% in 2024.

In 2025, principal repayments by municipalities amounted to Denar 523 million, thus decreasing by Denar 27 million, or 4.9%, compared to Denar 550 million in 2024.

In 2025, the local government recorded a surplus of Denar 371 million. This surplus was mainly due to higher transfers paid from the Budget of the Republic of North Macedonia.

2.5.2 2026 Budgets of Local Government Units

2026 municipal budgets are prepared as per the instructions given in the budget circular of the municipalities. Во циркуларот се утврдени максималните износи за планирање на приходите во основниот буџет, како и проекциите за дотациите од ДДВ, блок и наменските дотации.

Pursuant to the Law on Financing the Local Government Units, percentage of increased Core Budget own revenues over the determined average of own revenues collected in the last three years, accounts for 10% in 2026. In case the collection of own revenues of municipality, as of the third quarter inclusive, exceeds 75% of the projected own revenues, the municipality may further increase the projected revenues by up to 20%. At the same time, if the municipality has provided a confirmation for transfer of funds from an appropriate institution or in the case of changes pertaining to the amount and the type of own revenues of the Core Budget established by law, the municipality may increase the projected revenues.

In 2026, municipalities will receive 6% of the collected VAT from the previous year, 4.5% out of which is allocated to all municipalities, 0.75% is distributed to the Equalisation Fund and the Performance Fund, respectively. Total amount, which will be distributed thereto, amounts to Denar 5,202 million, being higher by Denar 314 million compared to 2025. As regards personal income tax (PIT), in 2026, municipalities receive 6% of the collected PIT on wages of individuals as per their permanent place of residence. These revenues are projected in the amount of Denar 1,327 million, which is approximately at the same level as in the previous year.

In 2026, the trend of increasing earmarked and block grants for the transferred competencies in the field of education, culture, social protection, and firefighting, continues. Total amount is Denar 30,805 million, being higher by Denar 2,030 million compared to 2025. Growth resulted from the increased wages, harmonisation with the minimum wage and payment of the vacation allowance.

In 2026, total municipal revenues are projected in the amount of Denar 66,884 million, being an increase by 21.8% compared to the revenues collected in 2025. Expenditures are projected in the amount of Denar 70,690 million, being higher by 29.6% compared to the expenditures in 2025. Increase in expenditures is primarily due to a significant rise in capital expenditures, being projected in the amount of Denar 20,582 million, marking a 106.6% growth compared to the expenditures executed in 2025. These funds ae intended for construction and reconstruction of streets and local roads, reconstruction and construction of schools, kindergartens, sports halls and playgrounds, environmental protection projects, etc. Financing of these Projects is also supported by funds from the Budget of the Republic of North Macedonia, amounting to over Denar 4.5 billion in 2024 and an additional Denar 13.9 billion in 2025, approved by the Government. These funds will be disbursed to municipalities upon submission of interim certificate for completed investment activities.

Such projected revenues and expenditures for 2026 will result in a budget deficit of EUR 3,806 million. The main reasons for this high deficit are the use of deposits, i.e. unspent funds that municipalities received as capital transfers from the Budget of the Republic of North Macedonia at the end of 2025.

2.5.2 Revenue Collection and Expenditure Execution in the period January – March 2026

Performance of revenues and inflows to the municipal budgets in the period January - March 2026, amounted to Denar 11,878 million and, compared to the same period last year, they grew by around 17.7%. Denar 3,163 million out of this amount were tax revenues, being higher by 4% more compared to last year. Revenues collected of the basis of property taxes in this period of 2026 amounted to Denar 1,123 million, recording a 22.7% increase. Increase of approximately 11.7% is observed in income taxes, primarily due to the increased wages, in particular the rise in the minimum wage. Collection of revenues on the basis of tax on specific services amounted to Denar 1,682 million, decreasing by 6.8%, while fees for usage or licenses for performing an activity recorded 7.9% growth.

During the analysed period, non-tax revenues were collected in the amount of Denar 373 million and, compared to the same period in 2025, they recorded significant 18% drop. As for non-tax revenues, inflows on the basis of fees and charges predominated, amounting to Denar 275 million, increasing by 8.8% compared to the revenues collected in the same period last year, while other non-tax revenues amounted to Denar 70 million, which compared to the revenue collected in the same period last year recorded a 60.6% drop. Other non-tax revenues amounted to around Denar 28 million, growing by 17.9% compared to the previous year.

In the period January - March 2026, capital revenues were collected in the amount of Denar 489 million, being higher by 20.3% compared to the previous year. As for capital revenues, they almost fully comprised revenues collected on the basis of sale of land and intangible investments.

Revenues on the basis of grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes and firefighting amounted to Denar 7,261 million, i.e. they significantly increased by around 7.2% during the analysed period of 2026. Revenues from current and capital transfers from the Budget of the Republic of North Macedonia in the period January - March 2026 were collected in the amount of Denar 2,448 million, representing a significant increase of around 142.1% compared to those collected in March 2025. This increase is mainly due to the transfer of substantial amounts of capital transfers from the Budget of the Republic of North Macedonia for the purpose of financing municipal infrastructure projects.

In the period January - March 2026, capital revenues were collected in the amount of Denar 145 million, being higher by 35.3% compared to the previous year.

No collection of inflows from loans, neither revenue inflows were recorded from the sale of parts, shares or other securities during the analysed period.

In the period January - March 2026, expenditures executed in the amount of Denar 14,108 million increased by 16.1% compared to the same period last year. These expenditures are used for regular servicing of the liabilities arising from the competences transferred to the municipalities. They include costs for day-to-day operations of the municipalities, implementation of capital projects and repayment of principal on the previously taken loans.

In the period January - March 2026, expenditures related to wages and allowances accounted for the most of the expenditures with 54%, i.e. Denar 7,612 million. Compared to the same period last year, these expenditures were higher by 7.8%. The largest part of the wage bill, i.e. 84.2% or Denar 6,411 million, pertained to the employees in the institutions at local level, such as primary and secondary education, culture, kindergartens, elderly homes and firefighting. These institutions are financed, to a great extent, with block grants, covering around 98.9% of their costs.

In the period January- March 2026, expenditures related to goods and services amounted to Denar 2,132 million, accounting for 15.1% of total expenditures. These expenditures surged by 1.5% compared to the same period last year. This increase can be attributed to the growing needs for procurement of goods and services within the scope of the ongoing activities and the project implementation.

Expenditures related to subsidies and transfers were executed in the amount of Denar 1,255 million, accounting for 8.9% of total expenditures. These funds are intended for supporting various programmes and projects in the public sector, as well as for social transfers and subsidies for the citizens.

On the other hand, principal repayment amounts to Denar 189 million, comprising 1.3% of the total expenditures. This amount is allocated for repayment of previously taken loans, reflecting the municipalities' ongoing obligations to manage the public debt.

Expenditures executed from reserves, social benefits, and interest payments collectively account for approximately 0.4% of total expenditures, highlighting their smaller yet significant role in ensuring financial stability and supporting social programmes.

In the period January - March 2026, capital expenditures accounted for 20.3% of total expenditures, amounting to Denar 2,866 million. The majority of these expenditures (98.3%) are financed from revenues generated within the Core Budget, with the largest portion consisting of transfers from the Budget of the Republic of North Macedonia, designated for capital investments. Other sources of financing for capital expenditures include 1.3% from donations, and 0.2% from both grants and self-financing activities. The 68% increase in capital expenditures compared to the same period last year indicates significant intensification of capital investments. This increase is explained by the greater utilisation of funds allocated as capital grants from the Budget of the Republic of North Macedonia, in accordance with the Government’s decisions in 2024 and 2025. This demonstrates that municipalities and local governments are actively leveraging their budgets to finance development projects, which may include infrastructure and other capital investments, aimed at enhancing public services and improving the economic condition in the municipalities. The rise in capital investment funding reflects active polices for supporting local development and creating conditions for better quality of life and work environment of the citizens.

2.5.3 Medium-Term Framework of Local Government Budget

One of the priorities indicated in the 2024-2028 Work Programme of the Government of the Republic of North Macedonia, covers developed local government units and balanced regional development. Government’s main principles are aimed at having modern, transparent and financially stable municipalities in place, through even distribution of funds between the planning regions and the municipalities, while also providing for equal development of all regions.

In cooperation with the municipalities, Government will work on enhancing the decentralisation process via continuous increase of the transfers of competencies by the state administration bodies to the local government units in line with the built capacities of local government units.

Government's financial support and cooperation with the municipalities will be geared towards: continuous investment of the State Budget funds in capital infrastructure projects for the municipalities, increased financial stability of municipalities by ensuring equal distribution of funds, while paying attention to the balanced regional development principles, benefits and incentives for those municipalities with well-designed budgets, high expenditure execution, high local tax collection, as well as improved methodology for calculating the maintenance costs of educational facilities in the municipalities, as per which funds are paid thereto via block grants.

Capital investments are the key factor for boosting the competitiveness of the economy and improving the quality of life for the citizens. In the upcoming period, the Government will be dedicated to the following: capital investments to be solely aimed at productive projects: infrastructure and energy projects in support of the business sector, and capital projects in the field of utilities and other local infrastructure, geared towards improving the living conditions of the Macedonian citizens.

During its term of office, the Government will be also focused on revising the system for distribution of the transfers from the State Budget to the municipalities, which will be in correlation with efficient genuine revenue collection. Correlating the budget transfers with the performance of municipalities in collecting their own genuine revenues will imply fair taxation and transfer of budget funds to the municipalities.

Municipalities are expected to continue the trend of improved collection of own revenues, as well as strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. Strong devotion will continue in the coming period, by encouraging sustainable local development, sound local governance and creating conditions for more active, more effective and more innovative role of the local authorities in accomplishing the national objectives for growth and development, all to the end of realising the strategic commitments.

By taking into account the activities undertaken in the past period related to completing the second phase of fiscal decentralisation, during 2026, it is expected for all activities for entering of Plashnica Municipality in the second decentralisation stage, to be completed.

In 2026 and over the medium run, for the purpose of strengthening fiscal decentralisation, activities and measures will continue to focus on strengthening fiscal capacity, increasing municipal revenues, and reinforcing fiscal discipline, transparency, and accountability throughout their operations.

Amendments to the Law on Financing Local Government Units provided for improved fiscal capacity and increased municipal revenues, by which PIT revenues gradually increased from 3% in 2022 to 6% in 2024. In addition, as per these amendments, in 2026 and the next years, municipalities will receive 6% of the collected PIT revenues.

In 2026 and beyond, VAT revenues will account for 6% of the collected VAT generated in the previous year.

Over the forthcoming medium-term period, New Law on Financing of Local Government Units will be prepared, as per the assessment of the existing Law carried out in 2022, which will be harmonised with the new Organic Budget Law and the commencement of the implementation of the new IFMIS system, to be followed by adopting the respective bylaws.

As regards strengthening the fiscal responsibility of the municipalities, the legal amendments are expected to provide for increased transparency of their operations, by which the municipalities are obliged to publish financial data, in a transparent manner, on their websites, coupled by spending accountability for all funds transferred by the Government. Data on revenue collection and expenditure execution of municipalities, as well as the arrears reported in the Electronic System for Reporting and Recording of Liabilities are published on MoF's website on quarterly basis, whereby the Annual Report on the Budget of the Republic of North Macedonia also includes the Annual Report on the Municipal Budgets. With UNDP support, the financial data under the periodical financial statements of around 50 municipalities were published on the websites of the municipalities, as well as on MoF's website.

Additional revenues are also transferred to the municipalities' budgets as grants from the Budget of the Republic of North Macedonia and the Funds' budgets for the purpose of financing their competences stipulated by law. Block grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes, earmarked grants for firefighting, as well as capital grants from the State Budget, have been transferred from the Budget of the Republic of North Macedonia. For the purpose of more even distribution of the grants by municipalities, the competent ministries will carry out analyses of the criteria, as per which, the funds are distributed for the separate transferred competences, while also determining new distribution models in line with the needs, thus rendering better-quality services.

Government of the Republic of North Macedonia remains, through its competent ministries and institutions, committed to actively supporting local development by providing for implementation of a wide range of infrastructure projects across municipalities throughout the country. In the course of 2024, over Denar 4 billion was allocated from the State Budget as capital grants, aimed at implementing more than 280 infrastructure projects. Funds were distributed at the end of 2024, and with their use commencing in 2025 and continuing into 2026. In addition, in 2025, a separate Programme AA – Infrastructure Projects in Municipalities was adopted, and approximately 820 projects were approved, with a total value of Denar 13.9 billion. In 2025, the implementation of part of the projects commenced and is set to continue throughout 2026 and 2027.

In the next medium-term period, stable revenues have been provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the Budget of the Republic of North Macedonia and 50% for the municipalities and the municipalities in the City of Skopje, which distribution depends on the location of the agricultural land under lease, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the projected ones. Stable own revenues are provided from funds distributed to the municipalities on the basis of the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the municipalities), depending on which area the concession activity is performed.

In addition to the support as regards the transfer of competences for collection of part of the public revenues, as well as the State Budget transfers, support to building municipal capacities is also implemented through projects of the central government funded by international financial institutions.

Under the Local Roads Connectivity Project, which is part of the ongoing Country Partnership Framework with the World Bank, implemented by the Ministry of Transport and Communications, EUR 70 million is intended to be disbursed to all 80 municipalities and the City of Skopje for construction and rehabilitation of local roads and streets, as well as other road infrastructure in local government units. Such direct support ranging from EUR 500,000 up to EUR 2 million per municipality (depending on the project the respective municipality applies for) provides for improved local infrastructure in the municipalities.

In the period to come, Public Sector Energy Efficiency Project will continue to be implemented via the Ministry of Finance with World Bank support under Loan Agreement in the total amount of EUR 25 million. Main objective of this Project is reducing energy consumption in the public sector, at the same time improving the energy class and the quality of the public buildings and the public lighting. All local government units are eligible to use the funds under this component. Amount of funds per municipality can vary from EUR 50,000 to EUR 750,000 and is dependent on the municipal borrowing capacity and the estimated investment value of the proposed municipal project. By signing a sub-loan agreement with the Ministry of Finance, 80% of the loan funds is allocated to the municipality as on-lending, with the remaining 20% being allocated as a grant. Moreover, within the funds Ministry of Finance provided for this Project, the expenses for preparation of energy audit and technical design will also be covered. Investment grant in the amount of EUR 2.140.000 has also been provided for this Project through the Western Balkans Investment Framework (WBIF).

As regards municipal infrastructure, all necessary activities will be carried out to ensure smooth implementation of the Skopje Rapid Bus Transit Project, which is financed by the European Bank for Reconstruction and Development.

Backed by a EUR 50 million loan from the European Investment Bank, aimed at financing the Municipal Water Infrastructure North Macedonia Project, the Government will keep providing support for all municipalities, with a focus on building more sound water supply infrastructure and wastewater treatment stations. This Project is implemented via the Ministry of Environment and Physical Planning

In the field of environment, major capital Project for Construction of Skopje Wastewater Treatment Plant is implemented, funded with European Investment Bank's loan amounting to EUR 68 million, followed by a loan by the European Bank for Reconstruction and Development in the amount of EUR 58 million, as well as investment grant under the Western Balkans Investment Framework - WBIF, amounting to EUR 69,784,283 million. As regards solid waste management, Regional Solid Waste Management Project is of vital significance, foreseeing establishment of management systems, i.e. solid waste stations in Southwest, Vardar and Pelagonija Regions, Southeast Region and Polog Region, funded with a loan amounting to EUR 55 million by the European Bank for Reconstruction and Development and investment grant under the Western Balkans Investment Framework, amounting to EUR 22.5 million.

Table 23. Medium-Term Projection of Local Government Budget (Denar million)

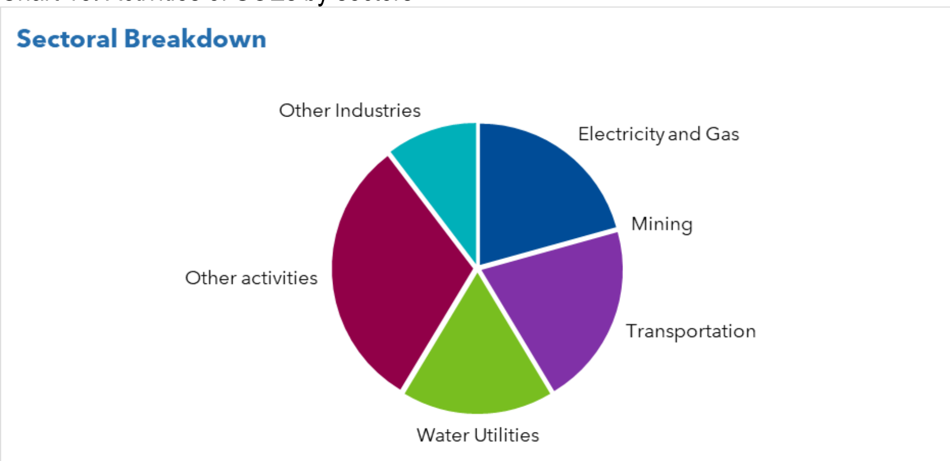
	2022	2023	2024	2025	2026*	2027*	2028*	2029*	2030*	2031*
Total revenues	**38,716**	**47,375**	**50,165**	**54,941**	**66,618**	**69,370**	**72,082**	**75,005**	**77,984**	**80,839**
Tax revenues	10,716	11,811	13,250	13,649	14,070	14,670	15,170	15,670	16,170	16,670
Non-tax income	1,419	1,585	1,474	1,614	2,943	3,128	3,383	3,638	3,843	4,098
Capital income	1,784	1,899	1,489	2,310	2,555	2,770	2,970	3,170	3,370	3,570
Transfers	24,105	30,347	33,261	36,885	45,850	47,402	49,059	50,927	52,901	54,601
Donations	692	1,733	691	483	1,200	1,400	1,500	1,600	1,700	1,900
Total expenses	**38,911**	**44,309**	**48,884**	**54,539**	**66,618**	**69,370**	**72,082**	**75,005**	**77,984**	**80,839**
Wages and allowances	19,899	23,981	27,321	30,395	32,380	33,721	34,906	36,363	37,622	39,184
Goods and services	9,900	9,832	9,586	9,735	12,665	12,600	12,950	13,300	13,950	14,450
Interest payments	37	67	98	73	110	110	110	110	110	110
Subsidies and transfers	2,857	3,421	3,589	4,285	4,730	4,850	4,980	5,100	5,220	5,320
Social transfers	67	71	74	90	90	100	100	100	100	100
Capital expenditures	6,151	6,937	8,216	9,961	16,643	17,988	19,036	20,032	20,982	21,675
Balance	**-195**	**3,066**	**1,282**	**402**	**0**	**0**	**0**	**0**	**0**	**0**

Source: Ministry of Finance projections (*)

2.6 SOEs – Monitoring and Financial Performance

Government of the Republic of North Macedonia has founded 15 public enterprises, being a single shareholder/member in 14 companies, all of which are fully (100%) state-owned. These entities employ around 13 thousand workers, accounting for a significant part of Macedonian economy. Their operations span multiple sectors, including energy and gas, transport, water economy, media services, and other activities of public interest.

Chart 18. Activities of SOEs by sectors



Operations of SOEs are regulated in the Law on Public Enterprises, the Company Law, as well as other sectoral laws defining the operations in the specific area of the enterprise, i.e. the company (Law on Energy, Law on Railway System, Law on Public Roads, Law on Water Management, Law on Forests, etc.).

Pursuant to the Law on Public Enterprises, and for the purpose of increasing transparency, public enterprises are obliged to publish the annual and the quarterly reports on their websites, thus providing for timely and transparent monitoring of financial operations of these entities, at the same time providing opportunity for more realistic prediction of the fiscal risk in this field and timely undertaking of appropriate measures. Ministry of Finance publishes, on its website, data on expenditure execution and revenue collection and the projections thereof, and based on the data shown in the financial plans, quarterly and the annual reports of these entities.

Total expenditure execution and revenue collection of 29 entities in total (SOEs) in 2024, the performance in 2025 based on quarterly data, as well as the projected revenues and expenditures for 2026, are presented in Table 24: 2024–2026 Revenues and Expenditures.

Table 24. 2024–2026 Revenues and Expenditures

	SOEs	Total revenue	Total expenditure	Financial results	Total revenue	Total expenditure	Total revenue	Total expenditure
							million denars	
		2024			2025		plan 2026	
1	Power plants of North Macedonia ESM, JSC - Skopje	24,172.1	31,741.7	-7,569.6	22,113.8	28,770.7	24,688.3	24,605.3
2	Electricity Transmission System Operator of the Republic of North Macedonia, a JSC for electricity transmission and power system control, in state ownership - Skopje	6,579.9	6,050.4	529.5	7,039.5	5,563.7	4,865.3	4,865.3
3	Public enterprise for state roads - Skopje	13,361.9	9,508.4	3,853.5	16,266.1	6,619.9	15,500.0	9,000.0
4	Railways of the Republic of North Macedonia Transport, JSC - Skopje	1,229.1	1,560.9	-331.8	928.5	1,556.2	925.0	1,398.9
5	Public enterprise for managing forests „National Forests“ - Skopje	1,344.7	1,400.8	-56.0	1,336.0	1,408.6	2,853.4	2,553.8
6	State owned JSC for postal traffic "Post of North Macedonia“ - Skopje	1,253.8	1,639.2	-385.4	1,183.6	1,505.0	1,430.8	1,490.2
7	Public enterprise for railway infrastructure Railways of Republic of North Macedonia - Skopje	1,070.1	1,258.8	-188.8	918.4	1,185.5	1,033.1	1,420.5
8	Public enterprise for the maintenance and protection of national and regional roads - Skopje	1,474.4	1,370.4	103.9	1,822.9	1,484.8	2,070.5	2,050.5
9	Public enterprise "National Television“ - Skopje	1,365.5	1,266.5	99.0	1,212.0	1,228.9	1,610.0	1,610.0
10	JSC for construction and management of residential and commercial property significant to the country - Skopje	651.1	705.7	-54.6	712.3	700.7	920.6	904.8
11	Air Navigation service provider of the Republic of North Macedonia, JSC „M- NAV“ - Skopje	1,491.6	1,313.1	178.5	1,503.9	1,271.8	1,498.4	1,497.6
12	JSC Water Economy of Republic of North Macedonia	617.8	795.0	-177.2	637.6	672.1	989.5	984.5
13	Public enterprise for water supply "Strezevo“ - Bitola	272.9	430.1	-157.2	243.3	410.2	284.0	419.5
14	JSC "State lottery of North Macedonia“ - Skopje	2,342.6	1,795.1	547.5	2,310.5	1,834.8	6,153.0	4,838.6
15	Public enterprise Hydrosystem "Zletovica“ - Probistip	47.4	179.2	-131.7	65.5	183.1	66.0	190.3
16	Public enterprise "National Broadcasting“ - Skopje	259.4	280.1	-20.6	249.4	266.5	363.9	363.9
17	JSC for airport services "Airports of the Republic of North Macedonia“ - Skopje	33.3	109.7	-76.4	33.1	112.3	20.3	121.5
18	„Boris Trajkovski“, state owned limited liability company established by one person - Skopje	75.9	113.0	-37.1	68.1	131.9	122.6	165.5
19	Public enterprise for water supply "Lisice“ - Veles	50.8	88.6	-37.8	49.0	90.2	40.0	100.3
20	JSC for management of state - owned business premises - Skopje	82.4	78.8	3.6	81.6	78.1	96.7	96.0
21	Public enterprise "Official Gazette of Republic of North Macedonia“ - Skopje	106.0	90.9	15.1	110.8	96.2	116.0	115.1
22	Public enterprise for water supply "Studencica“ - Kicevo	77.4	83.1	-5.7	87.5	80.8	95.1	95.1
23	Media information agency - Skopje, a state owned JSC	62.8	77.5	-14.6	73.7	69.2	94.0	94.0
24	Public enterprise „JASEN“ - Skopje	48.0	47.9	0.1	47.2	47.0	57.2	57.1
25	Public enterprise for management of pastures - Skopje	58.0	53.0	5.0	34.5	28.2	44.3	40.0
26	JSC „Nomagas“ - Skopje	485.9	336.6	149.2	460.5	283.9	392.8	496.6
27	Public enterprise „Agro - Berza“ - Skopje	17.0	17.0	-0.1	26.3	24.5	31.8	31.8
28	Public enterprise „Collector system“ - Skopje	151.9	149.7	2.2	174.0	148.4	159.7	152.1
29	State owned limited liability company established by one person „Naftovod“ - Skopje	0.0	7.9	-7.9	0.0	6.2	0.0	7.8

Source: Quarterly reports and financial plans of SOEs

In line with the 2024 Annual Accounts, out of a total of 14 state-owned joint-stock companies, 9 recorded a loss, while 5 companies ended the year with a positive performance. Among them, JSC MEPSO and JSC State Lottery of the Republic of North Macedonia achieved the highest profit, amounting to Denar 500 million each.

As for public enterprises, 8 entities reported a negative performance, while revenues surpassed expenditures at 7 of them, which is either reinvested within the public enterprise itself or paid to the Budget for the purpose of covering losses of other public enterprises.

On the other hand, the business activity of state-owned joint-stock companies, as reflected in the data from the quarterly reports in 2025, indicates an increase in the number of entities expected to achieve a positive financial performance from their operations. Specifically, out of a total of 14 joint-stock companies, 7 are expected to end the year with a positive financial performance, while the remaining 7 are expected to report a loss. The performance of public enterprises in 2025 demonstrates that, out of a total of 15 entities, 8 are expected to report that revenues surpass the expenditures, while 7 are expected to report that expenditures exceed revenues from their operations.

According to the 2026 Financial Plans and Programmes, as regards the projected revenues, the following entities account for a significant share among public enterprises and joint-stock companies: JSC Power Stations of North Macedonia (Denar 24,600 million), Public Enterprise for State Roads (Denar 15,500 million), and JSC State Lottery of the Republic of North Macedonia (Denar 6,100 million) and JSC MEPSO (Denar 4,800 million).

On the expenditure side for 2026, the highest projected expenditures among state-owned joint-stock companies are expected to be executed by JSC Power Stations of North Macedonia (Denar 24,600 million), followed by JSC State Lottery of the Republic of North Macedonia and JSC MEPSO, with expenditures of approximately Denar 4,800 million each. In contrast, among public enterprises, the following entities account for a significant share of the expenditures for 2026: Public Enterprise for State Roads (Denar 9,000 million), Public Enterprise National Forests (Denar 2.5 million) and Public Enterprise for Maintenance and Protection of National and Regional Roads (Denar 2,000 million).

The Table 25 - consolidated financial statement presents the consolidated data on the portfolio of these entities in the period 2020–2024, based on the Annual Accounts submitted to the Central Registry of the Republic of North Macedonia.

Table 25. Consolidated Financial Statement

Summarized Financial Statements 2020-2024 — **thousands denars**

	2020	2021	2022	2023	2024
Total Revenue	**32,972,676**	**43,874,611**	**74,932,121**	**62,254,786**	**55,929,407**
Percent of GDP	*4.93*	*6.01*	*9.18*	*6.89*	*5.80*
EBITDA	**7,296,550**	**9,423,688**	**16,636,447**	**13,170,257**	**6,371,931**
Percent of GDP	*1.09*	*1.29*	*2.04*	*1.46*	*0.66*
Net Profit	**1,759,510**	**-1,193,696**	**6,568,647**	**5,652,705**	**-3,877,539**
Percent of GDP	*0.26*	*-0.16*	*0.80*	*0.63*	*-0.40*
Total Assets	**317,678,379**	**326,674,708**	**343,013,249**	**374,732,390**	**406,349,661**
Percent of GDP	*47.47*	*44.78*	*42.03*	*41.50*	*42.15*
Total Current Assets	**23,343,311**	**25,687,418**	**33,375,828**	**34,429,427**	**35,839,298**
Percent of GDP	*3.49*	*3.52*	*4.09*	*3.81*	*3.72*
Total Liabilities	**106,629,456**	**117,053,338**	**126,598,948**	**149,031,709**	**184,362,120**
Percent of GDP	*15.93*	*16.05*	*15.51*	*16.51*	*19.12*
Total Current Liabilities	**23,371,996**	**26,597,651**	**27,384,058**	**34,045,064**	**44,981,968**
Percent of GDP	*3.49*	*3.65*	*3.36*	*3.77*	*4.67*
Total Equity	**211,825,204**	**210,397,650**	**217,190,582**	**226,506,816**	**222,766,730**
Percent of GDP	*31.65*	*28.84*	*26.61*	*25.09*	*23.11*

Total capital of these entities ranges between Denar 211,800 million in 2020 and Denar 222,800 million in 2024. Total revenues generate in 2024 recorded a significant increase of approximately 70% compared to total revenues generated in 2020, while in 2024, 12 entities yielded positive performance and achieved operating profitability (EBITDA), amounting to a total of Denar 6,371 million.

Contemporary public financial management concept designed in the new Organic Budge Law is aimed at improving the public finance management and strengthening the medium-term budgeting, as one of the biggest priorities of the Government of the Republic of North Macedonia in the EU accession process. This concept also covers SOEs as substantial segment in the public sector, thus, planned activities in the forthcoming period are focused on strengthening medium-term planning at these entities, in particular as regards capital investments.

The financial plans and investment programmes of these entities include several ongoing and investment activities that are planned to continue over the medium run as well. In fact, as regards the energy sector, JSC ESM (Power Plants of North Macedonia) has planned investment activities aimed at increasing domestic production, primarily from renewable energy sources, in response to the growing demand for electricity in the Republic of North Macedonia. In line with the investment plan, during the upcoming medium-term period, among the priority projects of the Company are the modernisation of the district heating network in the City of Skopje, the construction of Photovoltaic Power Plants “Oslomej 2” and “Bitola 1 and 2,” as well as the implementation of the Bogdanci Wind Park Phase 2.

In the field of railway infrastructure, during the period 2026–2030, capital investments will be geared towards continuation and completion of construction activities for the reconstruction and construction of Corridor VIII (eastern section), commencement of construction works, as well as installation of signalisation, telecommunications, and electrification systems for the propose of implementing the Project Construction of Rail Section from Kriva Palanka - Border with the Republic of Bulgaria.

As regards investments in the road infrastructure, the Public Enterprise for State Roads will continue to carry out activities, covering repair and rehabilitation of motorways, expressways, national and regional roads, construction of bypasses, as well as remediation of landslides and construction and rehabilitation of bridges.

With respect to the activities related to the gasification of the country and the supply of the business sector, the public sector and the households with affordable environment-friendly energy, AD “NOMAGAS” will, in the upcoming medium-term period, continue with activities related to the construction of an interconnector gas pipeline between the Republic of North Macedonia and Greece, as well as the construction of the gas pipeline along Section 8 “Sveti Nikole – Veles.”

SOEs play a vital role in providing social value and boosting economic growth, at the same time being a potential source of fiscal risk, which could result in certain deviations from the medium-term baseline scenario.

Fiscal risks arising from SOEs stem from their insufficient profitability and dependence on state support, which may result in reduced revenues and increased Budget expenditures. Therefore, regular monitoring and assessment of their impact on public finances is necessary, as reflected through set financial indicators presented in Section 7.5 – SOEs.

3. Other Aspects and Improvement of Public Financial Management

3. 1 Public Financial Management Reform Programme 2025-2028

Effective public financial management in the period 2025–2028 will remain of key significance not only for improving the fiscal discipline and the strategic distribution of the scarce public resources, but also for ensuring transparency, accountability and efficiency in budget spending, as well as rendering high–quality public services. These elements play major role in gaining public trust and increasing overall domestic support for implementing the challenging reforms.

Following the implementation of the reforms foreseen under the Public Financial Management Reform Programme 2022–2025 and the adoption of the new Organic Law on Budgets, the focus during the period 2025–2028, will be placed on full implementation of the medium-term budget framework, the strengthening of fiscal institutions, and the further enhancement of fiscal transparency and accountability. The limited fiscal space and the need for gradual reduction of the budget deficit and stabilisation of public debt require continuous improvement in revenue mobilisation, streamlining and prioritisation of expenditures, as well as increased efficiency of public investments.

Public finances reform is aimed at longer-term and better planning of budget programmes and budgets, sustainability and continuity in implementing the policies, more just model in view of revenues and expenditures and the manner of financing, as well as monitoring and measuring the performance.

Under the new Programme cycle, the reforms are focused on:

- further improvement of the fiscal framework and its alignment with the European standards;
- strengthening the capacities for macroeconomic and fiscal reporting;
- improving public investment management through clear criteria for selection and evaluation of capital projects;
- Broadening the application of the ‘Value for Money’ concept and the key performance indicator system;
- Digital transformation of the public finance system through full implementation of the Integrated Financial Management Information System (IFMIS);
- further strengthening of the public internal financial control and external supervision.

Public Financial Management Reform Programme 2025–2028 is a strategic document integrating the priorities of national development strategies, the European Union accession process, and the obligations undertaken jointly with the European partners under the reform agendas, aimed at developing the public financial management system. Civil society, development partners, and other relevant stakeholders are consistently engaged throughout the Programme preparation process. Such concept of an inclusive and open dialogue with all stakeholders about the PFM policies is applied, as a good practice, for the preparation of all PFM Programmes.

Public Financial Management Reform Programme covers all aspects of public financial management, including economic analysis, macroeconomic and fiscal framework, revenue mobilisation and collection, Budget planning, public investment management, public procurement, including PPP, establishment of Integrated Financial Management Information System (IFMIS), Public Finance Academy, budget accounting, public internal financial control, external control and parliamentary oversight and PFM at local level.

Public Financial Management Reform Programme is aimed at improving the fiscal framework, strengthening the processes of planning, execution, and reporting of public finances, increasing revenue collection, enhancing the public procurement system, and reinforcing both internal and external control through greater transparency and accountability, thus creating preconditions for accelerated economic growth, higher living standard and better quality of life for the citizens. All this encompasses maintaining stable Budget in the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public administration based on digitalisation.

Further improvement of public financial management is necessary not only to underpin the measures aimed at fiscal consolidation and structural reforms, but also as a process, which improves the quality of the public administration and ensures an attractive and desired environment for the investors. Moreover, the Government has developed sub-system reform strategies in the areas of public internal financial control and tax system.

Public Financial Management Reform Programme gains additional significance in the context of the European Union's new support model, particularly through the Reform and Growth Facility for the Western Balkans, which is based on the implementation of specific reform steps and the achievement of tangible results. In this regard, the Programme represents a key horizontal framework that provides the prerequisites for effective planning, execution, monitoring, and reporting of public policies and investments, as well as for timely and credible absorption of the EU funds.

The new Public Financial Management Reform Programme 2025–2028 builds on the lessons learned from the previous cycle and introduces a more coherent sequencing of reforms, precisely defined responsibilities, and a strengthened mechanism for monitoring and evaluating results.

3.2. Report on the Recorded Liabilities pursuant to the Law on Reporting and Recording the Liabilities

For the purpose of providing and maintaining transparency and accountability and strengthening the accountability when managing public funds, the Law on Reporting and Recording Liabilities regulates the reporting, recording and publication of the data on reported undue liabilities and arrears.

Such legal solution regulates the recording of liabilities on monthly basis in the electronic system by the general government bodies, local government units and institutions performing activities in the field of culture, education, health, child care, social protection, as well as in other activities of public interest determined by Law, established by the Republic of North Macedonia or by the local government units, public enterprises, state-owned companies and other legal entities founded by the Republic of North Macedonia or the local government units.

For the purpose of informing the public and greater transparency, and on the basis of the recorded data on reported liabilities, reporting is carried out on monthly basis through the Electronic System for Reporting and Recording Liabilities, by the 10th day in the month for the previous month at the latest, and Ministry of Finance publishes, on quarterly basis, summary reports on its website.

On quarterly basis, Ministry of Finance (https://finance.gov.mk/еспео/) publishes, on its website, the following reports:

- Report on Recorded Liabilities by entities,
- Report on Recorded Liabilities by groups of entities,
- Report on Reported Liabilities by types of expenditures and
- Report on Reported Liabilities by types of clients.

Entities reporting data in the Electronic System for Reporting and Recording Liabilities are responsible for full accurate and timely reporting of the liabilities.

Implementation of the provisions referred to in this Law is supervised by the Ministry of Finance through the Department for Public Sector Financial Inspection pursuant to the Law on Financial Inspection in the Public Sector.

In line with the data in the Electronic System for Reporting and Recording Liabilities, as of March 2026 inclusive, 1,404 active entities have been registered and active.

Under Table 26, the reported due liabilities by groups of entities, arrears by groups of entities are indicated, covering 2017-2026 period and in line with the reported liabilities, one can notice that the liabilities in the month of March 2026 (the latest published quarterly data) compared to 2017, increased by 86% (Denar 19,234 million), whereas compared to 2025 (December), they increased by 1.38% (Denar 565 million). As for total arrears for the month of March 2026, public enterprises/companies founded by the Republic of North Macedonia (43%) had the highest share, with the largest debtors being the following: Macedonian Railways Infrastructure JSC Skopje, Macedonian Railways Transport JSC Skopje, Joint Stock Company Power Plants of North Macedonia in state ownership Skopje, Heat Energy Supply Company ESM HEAT SUPPLY DOOEL Skopje and PUBLIC INSTITUTION IN THE FIELD OF HEALTH FOR THE NEEDS OF PUBLIC HEALTH INSTITUTIONS - UNIVERSITY CLINICS, INSTITUTE AND EMERGENCY CENTER. The largest debtors among the municipal public enterprises are the following: Public Traffic

Enterprise Skopje, Public Enterprise Water Supply and Sewerage - Skopje, Public Enterprise Water Supply Kumanovo - CM Kumanovo, Public Enterprise Sewerage System Skopje and Public Enterprise Utility Hygiene - CM Strumica.

Analysed as group of entities, compared to 2017, increased liabilities have been recorded at six groups of entities: budget users (first-line), municipalities, public health institutions, public enterprises/companies established by the Republic of North Macedonia, municipal public enterprises, regulatory bodies, planning regions and other entities, whereas reduced liabilities have been observed at two groups of entities: second-line budget users – institutions at national level and second-line spending units - local institutions financed via block grants.

Compared to 2025, liabilities have been increased at almost all groups of entities, except for planning regions and other entities.

Table 26. Reported due liabilities by groups of entities in the period 2019–2026 (Denar million)

No	Group of Entities	2017	2018	2019	2020	2021	2022	2023	2024	2025	03.2026
1	First-line budget users	5,158	1,044	468	510	591	654	760	843	2,457	1,777
2	Second-line budget users		326	106	96	130	74	256	434	468	375
3	Municipalities	4,613	5,248	3,306	3,698	4,252	4,084	3,613	3,738	5,569	5,291
4	Spending units (local) - second-line budget users	893	861	446	312	263	289	355	381	440	649
5	Public health institutions	3,183	2,868	2,726	2,757	4,187	5,224	3,770	3,345	6,342	6,962
6	Public enterprises and state-owned companies	6,045	4,509	5,962	7,418	11,059	9,769	10,301	21,121	16,910	17,933
7	Municipal public enterprises	2,454	3,263	3,600	2,961	3,630	4,666	4,679	6,995	6,654	6,631
8	Regulatory authorities	0	1	6	2	11	2	2	1	1	2
9	Planning regions	0	36	22	59	35	39	49	40	51	31
10	Other entities	0	583	54	6	1	1,028	1,360	1,617	2,121	1,927
	Total:	**22,344**	**18,740**	**16,697**	**17,819**	**24,160**	**25,829**	**25,142**	**38,515**	**41,013**	**41,578**

Source: Ministry of Finance – Electronic System for Reporting and Recording Liabilities
Note: Data pertain to the entities having reported data

As per the data on the type of expenditures shown in Table 27 compared to 2019, the arrears have increased for all types of expenditures, except for current transfers to the local government units and the liabilities for subsidies and transfers. During the first quarter of 2026, arrears for goods and services accounted for the most of the total arrears, and compared to 2019, arrears for reserves and non-defined expenditures, as well as arrears for principal repayment have significantly increased.

By analysing the type of expenditures as regards arrears, as per the economic classification, compared to 2019, the arrears have increased, pertaining to wages and allowances, reserves, non-defined expenditures, goods and services, interest payments, capital expenditures and principal repayment, with the current transfers to local government units, as well as the subsidies and transfers being reduced, whereby social benefits remain at the same level.

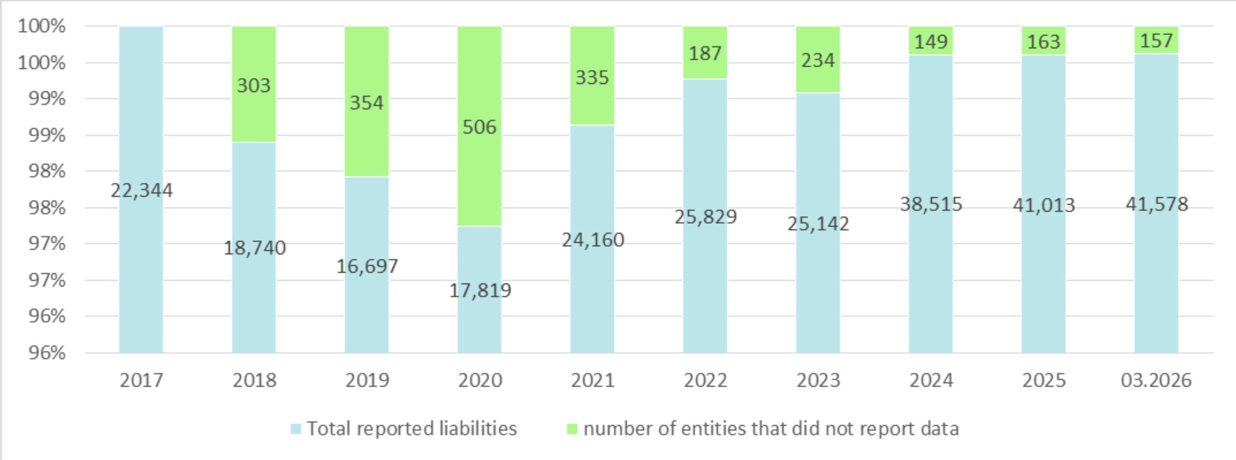
Table 27. Reported due liabilities by types of expenditures in the period 2019-2026 (Denar million)

Type of expenditures	2019	2020	2021	2022	2023	2024	2025	03.2026
Total:	16,697	17,819	24,160	25,829	25,142	38,515	41,013	41,579
40 Wages and allowances	647	664	577	668	496	546	732	674
41 Reserves and non-defined expenditures	12	170	537	690	729	2,173	3,803	3,848
42 Goods and services	10,566	10,211	12,990	16,570	16,784	19,996	23,204	24,795
43 Current transfers to extrabudgetary funds	0	7	7	8	0	0	41	0
44 Current transfers to local government units	2	0	0	1	0	0	0	0
45 Interest payments	802	907	1,392	565	968	899	1,068	1,055
46 Subsidies and transfers	1,280	1,214	1,308	1,019	1,022	1,023	2,241	1,769
47 Social benefits	3	3	2	1	2	2	4	3
48 Capital expenditures	2,763	3,026	3,470	3,353	2,870	4,131	5,897	5,408
49 Principal repayment	621	1,618	3,877	2,953	2,272	9,745	4,023	4,028
Number of entities that did not report data	354	506	335	187	234	149	163	157

Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities
Note: Data pertain to the entities having reported data

Chart 19 shows the comparison of arrears for the period 2017– 2026 and the number of entities failing to report data thereon, pursuant to the Law on Reporting and Recording of Liabilities. Most of the entities failing to report data were recorded in 2020, whereas the least number was recorded in 2024. Implementation of the provisions referred to in this Law is supervised by the Ministry of Finance through the Department for Public Sector Financial Inspection pursuant to the Law on Financial Inspection in the Public Sector.

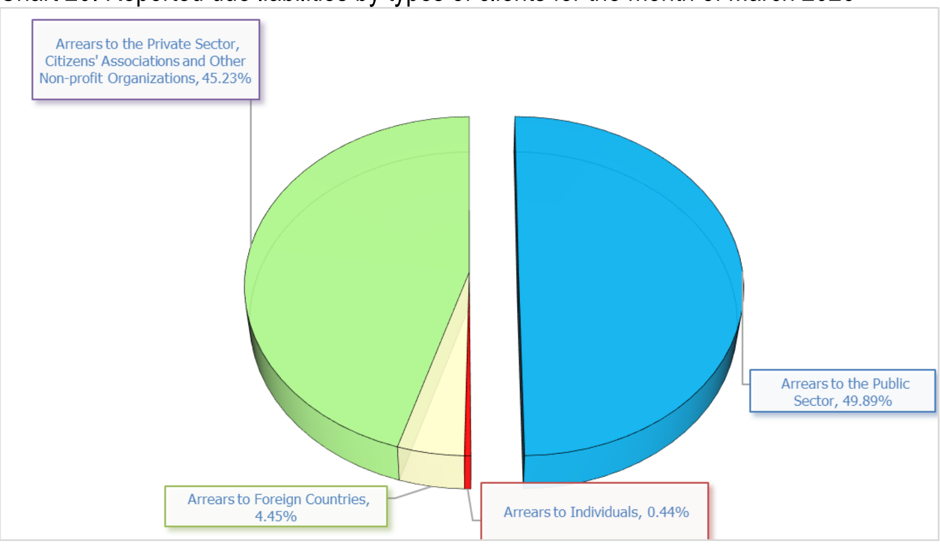
Chart 19. Arrears in the period 2017-2026.



Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities
Note: Data pertain to the entities having reported data

Reported due liabilities according to types of clients for the month of March 2026 are indicated in Chart no.20. Liabilities to the public sector (49.89%) accounted for the most of total arrears, whereas liabilities reported to natural persons (0.44%) accounted for the least thereof during this period.

Chart 20. Reported due liabilities by types of clients for the month of March 2026



Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities
Note: Data pertain to the entities having reported data

4. Use of EU Pre-Accession Assistance

Republic of North Macedonia, as a candidate country for EU membership, is available funds under the EU Pre-Accession Assistance (IPA) Instrument. IPA funds have been planned under the following financial perspectives: IPA 2007 - 2013 Financial Perspective (IPA 1), IPA 2014 - 2020 Financial Perspective (IPA 2) and 2021-2027 (IPA 3) Financial Perspective.

This section of the document presents only the part of EU Pres-Accession Assistance implemented under the decentralised/indirect management method. IPA decentralised/indirect management method is a management method within which the European Commission (EC) entrusts tasks for implementation of certain IPA Programmes to the accredited structure in the Republic of North Macedonia, such as tender procedures, contracting, project monitoring and execution of payments. On the other hand, when it is a matter of centralised management, these are responsibilities of the EC, via the Delegation of the European Union to Republic of North Macedonia.

Funds for national co–financing intended for projects implemented as per the indirect management method, are projected within budget of the Ministry of Finance, organisational code 09002 - Functions of the State, except for the national co-financing necessary for financing the IPARD Projects, which is projected within the budget of the Agency for Financial Support in Agriculture and Rural Development, organisational code 14004.

4.1. IPA 2 2014 - 2020 Financial Perspective

Under IPA 2 2014 - 2020 Financial Perspective, EUR 664 million has been made available to the Republic of North Macedonia. With respect to the manner of absorption, around 50% of the total funds allocated under IPA 2 are used through indirect management system, i.e. through accredited IPA structures.

Awarded assistance will be used for financing projects in the following areas: justice and home affairs, road and railway infrastructure, environment protection, education, employment, promotion of gender equality, development of human resources and agriculture, as well as rural development.

IPA funds under used via indirect management comprise the following annual and multi-annual programmes:

- 2014 Action Programme, wherein projects are financed in the following areas: judiciary, Disaster Recovery System and ensuring business continuity, developing capacities for on-site inspections, entry tickets for the Union Programmes. Payments therefor were completed in 2022.

- 2015 Action Programme, 2016 Action Programme, 2018 Action Programme and 2020 Action Programme for financing the entry tickets for EU Programmes;

- 2017 Action Programme used for financing projects in the following areas: Labour and education, entry ticket for the Union Programmes. Projects in the field of labour and education are financed within the Programme, the aim of which is to reduce high unemployment rate, increase share on the labour market, in particular the one of young people and women, increase the access to quality education and training, improve the results and the skills and put a modern and flexible social protection system in place. In order to achieve the general objective, several projects were implemented in the following areas: Institutional strengthening of the capacities for sustainable sectoral reforms; improving the educational and training system; promoting the skill development, employment and working conditions; social protection, social inclusion and equal share on the labour market and the society. Implementation of the Programme and the operating activities under the concluded agreements was completed in November 2024, payment therefor was completed in March 2026, when the final declaration of expenditures was submitted to the European Union. Major projects implemented through this Programme are:

- EARM Direct Grant - Labor Market Activation of Vulnerable Groups;
- Construction of Kindergartens in the Municipalities of Tetovo and Tearce and Supervision of the Works Contract;
- Further support for the implementation of the National Qualifications Framework;
- Improving the Quality of Education;
- Increasing Attractiveness, Inclusiveness and Relevance of VET and Adult Education.

- IPARD 2 Programme 2. IPARD Programme 2 supports projects that will provide for attaining EU standards introduced in the field of agricultural production, food processing and rural development. This Programme reached an 97% execution rate upon closure.

- Financing of projects in the field of road and rail transport, as well as projects for construction of wastewater treatment plants, sewerage networks and waste management and climate changes is envisaged within the Multi-Annual Sectoral Operational Programme of the Republic of North Macedonia on Environment, Climate Action and Transport 2014-2020. IPA funds amounting to EUR 114.95 million were allocated to the environment and climate activities sector, with EUR 110.91 million being allocated to the transport sector. More precisely, total funds allocated under this Programme amount to EUR 225.872 million. To date, the concluded contracts amount to EUR 78,671,682.96 (IPA allocations) and EUR 44,734,281.05 (NCF), EUR 61,338,468.67 out of which as IPA allocations and EUR 14,821,156.48 (NCF) have already been absorbed. Due to the decommitment of allocations in the total amount of EUR 134,267,103.68, the remaining available IPA funds under this Programme amount to EUR 91,605,098.57.

Major projects supported through this Programme are the following:

In the field of transport:

- Construction of Road Section Gradsko - Intersection Drenovo as part of Road Corridor X-d, the Project was implemented and officially commissioned, whereby, starting February 2025, the Project entered a 24-month defect liability period, which will run until February 2027.

- Rehabilitation of State Road A2, Section Kumanovo - Stracin (Phase 1); the implementation period as regards this Contract ended in the third quarter of 2024. On 7th March 2025, the Performance Certificate was issued by the Supervisory Body and the Contract was closed.

In the field of environment:

- Implementation of Priority Action in the Climate Changes Sector. Contract was concluded, with its implementation commencing in 2024, scheduled to last for 30 months, until the end of the third quarter in 2026;

- Supporting the implementation of Regional Waste Management Systems in the East and North-East Regions. Contract was concluded in Q4 2023, with its implementation commencing in Q1 2024, and scheduled to last for 24 months, ending in Q1 2026;

- Preparation and Revision of National Waste Planning Documents. The Contract was concluded in Q3 2023, with 18-month implementation period. Period of implementation of this Contract was completed in May 2025, being already closed;

- Support in the Implementation of Waste Management Legislation and Extended Producer Responsibility Scheme. As of the fourth quarter of 2022, this Project entered the implementation phase, which lasted 27 months. Period of implementation of this Contract was completed in May 2025;

- Support in the implementation of Air Quality Directives. Contract was concluded in the third quarter of 2024, which implementation commenced in Q4 2024, scheduled to last for 24 months, ending in Q4 2026;

- Supply of Specific Equipment for Water Monitoring Information System. Contract was concluded in the third quarter of 2024, with its implementation commencing in Q4 2024, and scheduled to last for 24 months, including the defect liability period;

4.2. IPA 3 2021 - 2027 Financial Perspective

Within IPA 3, projects will be financed through the 2022 Annual Programme for Environment and four Multiannual Operational Programmes, as follows: Multiannual Operational Programme on Environment, Multiannual Operational Programme on Transport, Multiannual Operational Programme on Human Capital and IPARD 3 Programme.

- Annual Programme 22 on Environment and Multiannual Operational Program on Environment - financing activities related to the development and modernisation of wastewater management systems, also including construction of wastewater treatment stations and sewerage networks, as well as putting modern regional solid waste management systems in place. Additionally, the Programme covers measures for climate change adaptation and mitigation, improvement of environmental monitoring, and strengthening of administrative capacities for implementing the EU Directives in this area. Total funds allocated for these Programmes amount to EUR 137,400,000.00, out of which EUR 96,500,000.00 as IPA funds and EUR 40,900,000.00 as national co-financing.

- Under the **Multiannual Operational Programme on Transport**, projects are supported for modernisation and reconstruction of railway infrastructure, improvement of signaling and safety systems, as well as upgrading of road infrastructure along strategic transport corridors. Additionally, the Programme contributes to strengthening institutional capacities for managing the transport sector and aligning with European standards and policies in this area. Total funds allocated for this Multi-Annual Operational Programmes amount to EUR 93,301,000.00, out of which EUR 50,000,000.00 as IPA funds and EUR 43,301,000.00 as national co-financing.

- **Multi-Annual Operating Programme on Human Capital,** activities are financed to improve education and vocational training systems, develop skills aligned with labour market needs, and implement active employment measures. Additionally, the Programme supports initiatives for social inclusion of vulnerable categories and strengthening of institutional capacities of relevant institutions in the field of education, labour, and social policy. Total funds allocated for this Multi-Annual Operational Programmes amount to EUR 49,668,041.00, out of which EUR 40,000,000.00 as IPA funds and EUR 9,668,041.00 as national co-financing.

- Under **2021-2027 IPARD Programme**, Republic of North Macedonia is made available total of EUR 97 million as IPA funds, with the national co-financing amounting to EUR 31,073,333. By the end of 2025, 5 public calls were published, with total of EUR 11 million being paid to the final beneficiaries.

4.3 List of Projects Planned for the 2027-2031 Period:

IPA 2 Multi-Annual Action Programme on Environment and Climate Action:

- Improved Implementation of the EU Floods Directive by Harmonising National Legislation and Preparing Flood Risk Management Plans. Contract was concluded in the third quarter of 2024, with its implementation commencing in the first quarter of 2025, and scheduled to last for 30 months, i.e. by Q3 2027;

- Further support in implementing the reforms in the water sector. Contract was concluded in the second quarter of 2025, scheduled to last for 30 months;

- Construction of Wastewater Treatment Plant in the Municipality of Bitola and Supervision of the Works Contract for Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Bitola. The Works Contract was concluded in the second quarter of 2025, which implementation commenced in the third quarter of 2025, scheduled to last for 36 months. The Supervision Services Contract was concluded in the second quarter of 2025, which implementation commenced in the third quarter of 2025, scheduled to last for 39 months;

- Construction of Wastewater Treatment Plant in the Municipality of Tetovo and Rehabilitation and Extension of the Sewerage Network in the Municipality of Tetovo, Supervision of the Works Contract for Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Tetovo. It is planned that the Contracts will be concluded in the second and third quarter of 2026, with an implementation period of 36 months for the construction activities, i.e. 39 months for the Supervision Services Contract;

- Closure of Non-Compliance Landfills and Dumpsites in the East Region - Lot 1, Supervision of the Works Contract for Closure of Non-Compliant Landfills and Dumpsites in the East and North-East Regions - First Phase. The Contract is in its implementation phase and it is expected to be completed in the fourth quarter of 2026;

- Construction of Central Waste Management Facility for the East and North-East Regions in the Municipality of Sveti Nikole. The Contract is scheduled to be concluded in the third quarter of 2026, with a duration of 30 months and included defect liability period, i.e. by the first quarter of 2029;

- Construction of Six (6) Local Waste Management Facilities in the East and North-East Regions – Municipalities of Berovo, Makedonska Kamenica, Vnica, Shtip, Rankovce and Kumanovo. The Contract is scheduled to be concluded in the third quarter of 2026, with a duration of 30 months and included defect liability period, i.e. by the first quarter of 2029;

IPA 3 Annual Action Programme for 2022:

- Wastewater Collection and Treatment Investment Project in the Municipality of Shtip – Lot 1, Design and Construction of Wastewater Treatment Plant in the Municipality of Shtip and Lot 2, Construction, Rehabilitation and Extension of Sewerage Network in the Municipality of Shtip, including Supervision of the Works. It is planned for the Contracts to be concluded in the first and the second quarter of 2026 with implementation periods of 36 and 39 months, respectively;

- Connection of Vinica to the Kochani Wastewater Treatment Plant, including Partial Rehabilitation and Extension of the Sewerage and Stormwater Systems in the Municipality of Vinica, including Supervision of the Works. It is planned for the Contracts to be concluded in the first and the second quarter of 2026 with implementation periods of 36 and 39 months, respectively.

IPA 3 Multi-Annual Operational Programme on Environment 2024-2027 in favour of the Republic of North Macedonia for 2024-2027:

- Construction of Wastewater Treatment Plant in the Municipality of Veles. The Contract is scheduled to be concluded the second quarter of 2027, with an implementation period of 36 months;

- Rehabilitation and Extension of Wastewater Collection and Treatment Infrastructure in the Municipality of Veles. The Contract is scheduled to be concluded in the second quarter of 2027, with an implementation period of 36 months;

- Procurement of water equipment for the Municipalities of Radovish, Kichevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo and Prilep. The Contract is scheduled to be concluded in Q3 2027, with an implementation period of 24 months;

- Support in the process of alignment within the Water Sub-Chapter. The Contract is scheduled to be concluded in Q3 2029, with an implementation period of 24 months;

- Procurement of equipment for waster collection and transport in the Eastern and Northeastern regions, Phase II. The Contract is scheduled to be concluded in the first quarter of 2028, with an implementation period of 24 months;

- Closure of non-compliant landfills and dumpsites in the Eastern and Northeastern regions - Phase II (complete closure). The Contract is scheduled to be concluded in the fourth quarter of 2028, with an implementation period of 36 months.

IPA 3 Multi-Annual Operational Programme on Human Capital in favour of the Republic of North Macedonia for 2024-2027:

- Direct grant – improving employment and youth employment. The Contract is scheduled to be concluded in the second quarter of 2027, with an implementation period of 60 months;
- Support for EARM services in fostering employment and youth employment. The Contract is scheduled to be concluded in Q2 2027, with an implementation period of 48 months;
- Support for implementing the Law on Social Enterprises. The Contract is scheduled to be concluded in Q3 2027, with an implementation period of 48 months;
- Grant schemes – supporting the development of new and existing social enterprises in North Macedonia; supporting the local economic and social councils in fostering local employment partnerships; Developing new and improving existing social services, including child and youth support services at local level, across the whole country.
- Direct grant – supporting the development of tripartite and bipartite dialogue. The Contract is scheduled to be concluded in the first quarter of 2027, with an implementation period of 36 months;
- Transformation of residential institutions into modern community services. The Contract is scheduled to be concluded in Q2 2028, with an implementation period of 30 months;
- Investments in social housing for Roma and other vulnerable groups, and settlement urbanisation. The Contract is scheduled to be concluded in Q2 2029, with an implementation period of 36 months;

IPA 3 Multi-Annual Operational Programme on Transport in favour of the Republic of North Macedonia for 2024-2027:

- Preparation of project documentation for reconstruction/rehabilitation of the most critical bridges on Railway Corridor X + Supervision of the Works Contract. The Contract is scheduled to be concluded in Q3 2027, with an implementation period of 60 months;
- Reconstruction/Rehabilitation of the Most Critical Bridges on Railway Corridor X. The Contract is scheduled to be concluded the second quarter of 2030, with an implementation period of 40 months;
- Rehabilitation of Corridor X - VIII Connection, Motorways A1, A2, A4 in the area of "Skopje Triangle" (Miladiniovci - Petrovec, Miladinovci - Hipodrom, Hipodrom - Petrovec) – major Project. The Contract is scheduled to be concluded in the first quarter of 2028, with an implementation period of 36 months;
- Design for Rehabilitation of State Road A1, Section Gevgelija - Greece Border (Bogorodica) (right carriageway). The Contract is scheduled to be concluded in Q3 2027, with an implementation period of 36 months;
- Preparation of feasibility studies and technical documentation for the expressway A2, Stracin - Romanovce section, and the right carriageway along motorway A1, Katlanovo - Veles section (Phase I). The Contract is scheduled to be concluded in Q3 2027, with an implementation period of 36 months;Alignment of the national legislation and polices with the Acquis on road infrastructure management, together with capacity building. The Contract is scheduled to be concluded in the first quarter of 2027, with an implementation period of 27 months;
- Alignment with the technical standards on road construction with the EU regulations and best practices. The Contract is scheduled to be concluded in the fourth quarter of 2027, with an implementation period of 12 months;

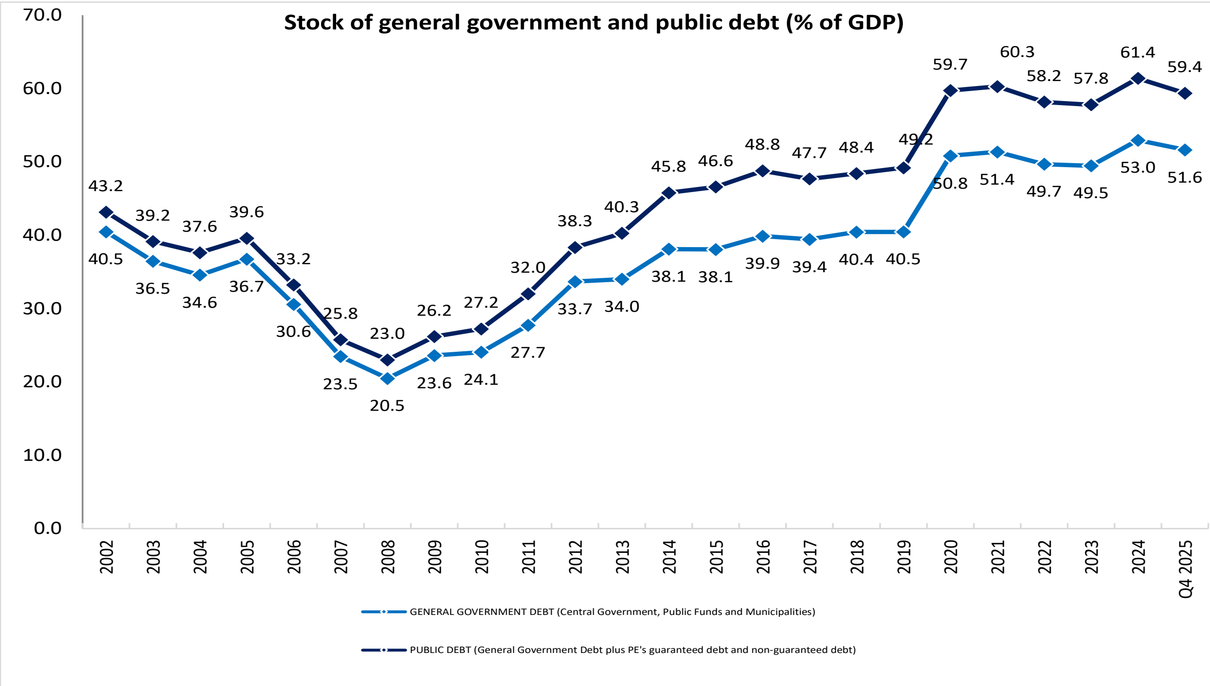
5. Public Debt

Efficient public debt management is of essential importance, encompassing reduced risks when designing the debt structure and the debt management policy, all to the end of preventing any possible inability to service the debt on regular basis and in a timely manner. Main objective of the public debt management policy is to ensure the funds necessary to finance the budget deficit and repay the due liabilities on the basis of prior borrowings, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country. Quality debt management, among other things, is determined on the basis of the institutional framework and the capacity to set and implement the public debt management policy. This implies defining of the public debt management objectives and measures in clear terms.

5.1. Amount of Public and General Government Debt

On 31st December 2025, general government debt of the Republic of North Macedonia amounted to EUR 8,752.8 million, i.e. it accounted for 51.6% of GDP. Central government debt accounted for the most in the general government debt, amounting to EUR 8,746.0 million, while the debt of the municipalities amounted to EUR 6.8 million. Total public debt comprises the general government debt and the debt of public enterprises and companies predominantly or fully owned by the state (guaranteed and non-guaranteed debt), amounting to EUR 10,064.1 million on 31st December 2025, accounting for 59.4% of GDP.

Chart 21: Stock of Public Debt



Central government debt accounted for 99.9% of the total general government debt at the end of 2025 and it is managed directly by the Ministry of Finance. As regards the other levels of debt, such as debt of municipalities and debt of public enterprises and companies predominantly owned by the state or the municipalities, Ministry of Finance participates in the process of borrowing, however, it cannot influence the intensity of withdrawing the funds under the concluded loan agreements.

More thorough projections on general government and public debt trends will be presented in the 2027-2029 Public Debt Management Strategy (with prospects until 2031).

6. Comparative Analysis of Macroeconomic and Fiscal Projections

6.1. Comparison with the Revised 2026- 2030 Fiscal Strategy

2027 - 2031 Fiscal Strategy of the Republic of North Macedonia, compared to the Revised 2026-2030 Fiscal Strategy of the Republic of North Macedonia demonstrates certain deviations as regards the macroeconomic projections, mostly as a result of the uncertainties related to the conflict in the Middle East. Under the new Strategy, further growth of economic activity is foreseen, but at somewhat more moderate growth rates, bearing in mind that uncertainties related to the global environment are more pronounced. This, in turn, results in a further reduction of growth expectations at global level, as well as among the major trading partners, both over the short and the medium run. Adverse effects of external environment will be partly offset by intensified investment activity, through more dynamic implementation of major infrastructure projects, as well as by measures aimed at supporting private investments. Net export is expected to positively contribute to anticipated stabilisation of the external environment and the country's boosted export capacity over the medium run.

More significant deviations compared to the Revised Fiscal Strategy of the Republic of North Macedonia 2026–2030 are projected in relation to inflation. Thereby, higher inflation rate is anticipated throughout the entire period, primarily as a result of increased prices on the primary market and their spillover effects on other products.

Deviations are particularly significant in the short run, more precisely in 2026 and 2027, while in the medium run, prices are expected to gradually converge towards those projected in the previous Strategy.

Compared to the previous Fiscal Strategy, the balance of payments projections points to a widening of the current account deficit, amid a less favourable external environment and higher import prices.

As regards the labour market as well, certain deviations from previous projections are also observed, with a slightly slower decline in the unemployment rate and slower employment growth, partly due to developments in the previous period, as well as expectations of more moderate growth rates. On the other hand, slightly higher growth in nominal net wages is expected, alongside faster price growth, as well as growth in real net wages.

Table 28. Comparison of Macroeconomic Projections with 2026 - 2030 Revised Fiscal Strategy

Indicators	Revised Fiscal Strategy 2026-2030					Fiscal Strategy 2027-2031				
	2026	2027	2028	2029	2030	2026	2027	2028	2029	2030
GDP, real growth rate (in %)	3.8	4.0	4.2	4.4	4.3	3.5	3.8	4.0	4.0	4.1
Inflation rate (average)	2.5	2.0	2.0	2.0	2.0	4.5	3.3	2.3	2.3	2.1
Current account balance (% of GDP)	-3.8	-3.6	-3.1	-2.7	-2.3	-5.0	-4.4	-3.6	-3.1	-2.6
Net wage - nominal growth (in %)	6.5	5.2	4.8	4.4	4.4	8.3	6.8	6.1	5.2	5.1
Unemployment rate (average)	10.1	9.1	7.8	7.6	7.5	11.0	10.3	9.7	9.0	8.3
Employment rate (average)	47.3	49.1	50.2	51.1	51.7	47.0	47.6	48.3	49.0	49.7

Source; Projections of Ministry of Finance

The new fiscal projections covering the 2027–2031 period, compared to the Revised Fiscal Strategy 2026–2030, reflect developments in petroleum products and their prolonged impact into the following year. Accordingly, the fiscal consolidation previously envisaged for 2027, as reflected in the budget deficit level, has been postponed to 2028, when the fiscal rules are expected to be met.

Table 29. Comparison of the Medium-Term Projections for the State Budget with the 2026-2030 Revised Fiscal Strategy (Denar million)

	Revised Fiscal Strategy 2026–2030						Fiscal Strategy 2027–2031							Deviation (Fiscal 2027–2031 / Revised Fiscal 2026–2030)						% deviation					
Budget of the Republic of North Macedonia	**2025***	**2026***	**2027***	**2028***	**2029***	**2030***	**2025***	**2026***	**2027***	**2028***	**2029***	**2030***	**2031***	**2025***	**2026***	**2027***	**2028***	**2029***	**2030***	**2025***	**2026***	**2027***	**2028***	**2029***	**2030***
Total revenues	**362,377**	**374,936**	**402,962**	**428,457**	**456,181**	**485,710**	**335,773**	**374,935**	**398,532**	**422,393**	**449,808**	**481,544**	**515,574**	**-26,604**	**0**	**-4,430**	**-6,065**	**-6,374**	**-4,166**	**-7**	**0**	**-1**	**-1**	**-1**	**-1**
Tax revenues and contributions	**319,196**	**335,971**	**360,198**	**385,883**	**413,206**	**442,725**	**306,962**	**335,971**	**355,117**	**381,683**	**410,983**	**441,743**	**474,843**	**-12,234**	**0**	**-5,081**	**-4,200**	**-2,224**	**-982**	**-4**	**0**	**-1**	**-1**	**-1**	**0**
Tax revenues	202,100	214,149	229,862	246,437	264,012	283,101	192,073	214,149	224,999	242,810	262,760	283,541	305,985	-10,027	0	-4,863	-3,627	-1,252	440	-5	0	-2	-1	0	0
Contributions	117,096	121,822	130,336	139,446	149,194	159,624	114,889	121,822	130,118	138,873	148,222	158,202	168,858	-2,207	0	-218	-573	-972	-1,422	-2	0	0	0	-1	-1
Non-tax income	**30,608**	**29,060**	**29,362**	**29,072**	**29,473**	**29,483**	**19,237**	**29,060**	**32,657**	**31,774**	**29,472**	**29,996**	**30,920**	**-11,371**	**0**	**3,295**	**2,702**	**-1**	**513**	**-37**	**0**	**11**	**9**	**0**	**2**
Capital income	**2,830**	**2,510**	**2,710**	**2,710**	**2,710**	**2,710**	**2,268**	**2,510**	**2,710**	**2,760**	**2,810**	**2,860**	**2,910**	**-562**	**0**	**0**	**50**	**100**	**150**	**-20**	**0**	**0**	**2**	**4**	**6**
Donations	**9,743**	**7,394**	**10,692**	**10,792**	**10,792**	**10,792**	**7,306**	**7,394**	**8,048**	**6,175**	**6,543**	**6,945**	**6,901**	**-2,437**	**0**	**-2,644**	**-4,617**	**-4,249**	**-3,847**	**-25**	**0**	**-25**	**-43**	**-39**	**-36**
Total expenses	**403,727**	**414,175**	**438,722**	**466,524**	**494,043**	**525,369**	**377,567**	**414,175**	**440,956**	**461,271**	**488,524**	**522,781**	**559,319**	**-26,160**	**0**	**2,234**	**-5,253**	**-5,519**	**-2,588**	**-6**	**0**	**1**	**-1**	**-1**	**0**
Current expenses	**356,376**	**374,062**	**389,921**	**402,743**	**418,242**	**434,849**	**349,115**	**374,053**	**397,402**	**415,335**	**431,728**	**448,197**	**463,427**	**-7,261**	**-10**	**7,481**	**12,592**	**13,486**	**13,348**	**-2**	**0**	**2**	**3**	**3**	**3**
Wages and allowances	49,189	52,628	54,153	55,745	58,437	61,256	48,414	52,628	57,314	60,653	63,684	66,233	68,882	-775	0	3,161	4,908	5,247	4,977	-2	0	6	9	9	8
Goods and services	28,025	28,187	27,177	27,782	28,292	30,092	23,040	28,177	29,278	31,032	31,036	31,537	32,804	-4,985	-10	2,101	3,250	2,744	1,445	-18	0	8	12	10	5
Transfers to LGUs	33,516	36,007	37,355	39,244	41,178	43,139	33,700	36,007	37,511	39,253	41,230	43,246	45,502	184	0	156	9	52	107	1	0	0	0	0	0
Subsidies and transfers	31,734	29,696	33,830	34,930	35,930	37,630	32,688	29,696	31,546	34,084	34,458	35,753	36,799	954	0	-2,284	-846	-1,472	-1,877	3	0	-7	-2	-4	-5
Social transfers	193,296	206,268	213,579	219,848	226,245	232,981	191,422	206,268	217,327	224,406	231,445	238,387	245,336	-1,874	0	3,748	4,558	5,200	5,406	-1	0	2	2	2	2
Interest payments	20,617	21,277	23,827	25,194	28,159	29,751	19,851	21,277	24,427	25,907	29,875	33,042	34,104	-766	0	600	713	1,716	3,291	-4	0	3	3	6	11
Capital expenditure	**47,351**	**40,113**	**48,801**	**63,781**	**75,801**	**90,520**	**28,452**	**40,122**	**43,554**	**45,936**	**56,796**	**74,584**	**95,892**	**-18,899**	**9**	**-5,247**	**-17,845**	**-19,005**	**-15,936**	**-40**	**0**	**-11**	**-28**	**-25**	**-18**
Budget balance	**-41,350**	**-39,239**	**-35,760**	**-38,066**	**-37,861**	**-39,659**	**-41,794**	**-39,239**	**-42,424**	**-38,878**	**-38,716**	**-41,237**	**-43,746**	**-444**	**0**	**-6,664**	**-812**	**-855**	**-1,579**	**1**	**0**	**19**	**2**	**2**	**4**
Primary budget balance	**-20,734**	**-17,962**	**-11,933**	**-12,872**	**-9,702**	**-9,908**	**-21,943**	**-17,962**	**-17,997**	**-12,971**	**-8,841**	**-8,195**	**-9,642**	**-1,210**	**0**	**-6,064**	**-99**	**861**	**1,712**	**6**	**0**	**51**	**1**	**-9**	**-17**
Total revenue, % of GDP	**35.4**	**33.8**	**34.2**	**34.1**	**34.0**	**33.9**	**32.2**	**33.8**	**33.3**	**33.0**	**33.0**	**33.2**	**33.5**												
Total expenditure, % of GDP	**39.5**	**37.4**	**37.2**	**37.1**	**36.8**	**36.7**	**36.2**	**37.4**	**36.8**	**36.1**	**35.8**	**36.0**	**36.3**												
Budget balance, % of GDP	**-4.0**	**-3.5**	**-3.0**	**-3.0**	**-2.8**	**-2.8**	**-4.0**	**-3.5**	**-3.5**	**-3.0**	**-2.8**	**-2.8**	**-2.8**												
Primary budget balance, % of GDP	**-2.0**	**-1.6**	**-1.0**	**-1.0**	**-0.7**	**-0.7**	**-2.1**	**-1.6**	**-1.5**	**-1.0**	**-0.6**	**-0.6**	**-0.6**												

Source: Ministry of Finance and Ministry of Finance projections (*)

6.2 Comparison with the Projections of Other Domestic and International Institutions

Recent developments related to the war in the Middle East, the outcome of which remains uncertain, are exerting significant pressure on primary commodity markets, inflation, and global economic developments, with spillover effects on the economies on the developments in the key trading partners. Taking into account the present global risks, as well as the domestic economic performance as opposed to the previous developments, there are certain differences as regards the projections at certain institutions. Moreover, assumptions and the period used in designing the projections should also be taken into account, as they further increase the differences among certain institutions, with only the projections of the Ministry of Finance and the IMF incorporating the effects of the conflict in the Middle East (Table 30).

Table 30. Comparison of Projections for GDP Growth and Inflation for North Macedonia

Institution	Real GDP growth (in %)						Inflation rate (%)					
	2026	2027	2028	2029	2030	2031	2026	2027	2028	2029	2030	2031
IMF	3.1	3.0	3.0	3.0	3.0	3.0	4.5	4.1	3.2	2.5	2.2	2.0
World Bank	3.0	3.0	:	:	:	:	2.5	2.0	:	:	:	:
European Commission	3.3	3,3	:	:	:	:	3.2	2.3	:	:	:	:
NBRNM	4.0	4.0	:	:	:	:	2.5	2.0	:	:	:	:
Ministry of Finance	3.5	3.8	4.0	4.0	4.1	4.1	4.5	3.3	2.3	2.3	2.1	2.0

Source: IMF (World Economic Outlook, April 2026), World Bank (Western Balkans Regular Economic Report, Fall 2025), European Commission (European Economic Forecast, November 2025) and NBRNM (Quarterly report, November 2025).

6.3 Comparison with Public Debt Management Strategy 2026 - 2030

Compared to the Revised Public Debt Management Strategy 2026–2030, the Public Debt Management Strategy 2027–2031 anticipates increased needs for both foreign and domestic borrowing, as a result of greater budget needs for financing capital infrastructure projects.

Despite the increase in foreign and domestic borrowing, the level of general government and public debt as a percentage of GDP projected in the Strategy demonstrates a slight downward trend, owing to projections of higher GDP growth.

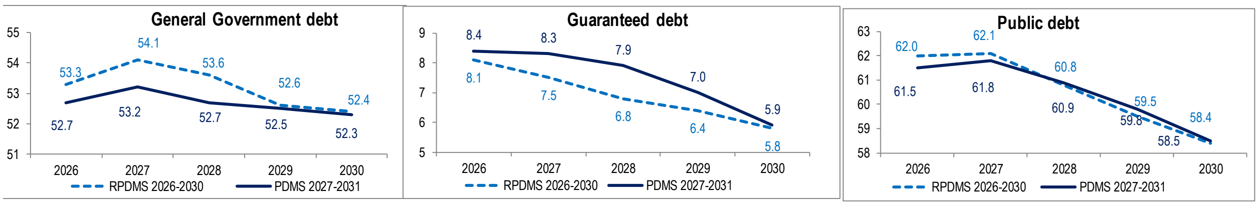
Comparative analysis of the level of general government and public debt in relation to GDP, as per the new and previous Strategy, is given below.

Table 31. Comparison with Public Debt Management Strategy 2026 - 2030

RPDMS 2026-2030 PDMS 2027-2031

	Revised Public Debt Management Strategy 2026-2030					Public Debt Management Strategy 2027-2031					deviation (in p.p)				
	2026	2027	2028	2029	2030	2026	2027	2028	2029	2030	2026	2027	2028	2029	2030
as % of GDP															
General Government debt	53.3	54.1	53.6	52.6	52.4	52.7	53.2	52.7	52.5	52.3	-0.6	-0.9	-0.9	-0.1	-0.1
Guaranteed debt	8.1	7.5	6.8	6.4	5.8	8.4	8.3	7.9	7.0	5.9	0.3	0.8	1.1	0.6	0.1
Public debt	62.0	62.1	60.8	59.5	58.4	61.5	61.8	60.9	59.8	58.5	-0.5	-0.3	0.1	0.3	0.1

Source: Ministry of Finance and projection of Ministry of Finance (*)



Source: Ministry of Finance and projection of Ministry of Finance

6.4 Comparison of the EU Instrument for Pre-Accession Assistance (IPA) under 2024 State Budget and its Execution with 2025 State Budget and Its Execution, as well as a Qualitative and Quantitative Explanation of the Main Deviations

Table 32. Comparison of the Instrument for Pre-Accession Assistance and Budget Funds for 2024 and 2025

Denar thousand

Areas Programmes	2024 Budget	2024 execution	% 2024 execution versus 2024 Budget	2025 Budget	2025 execution	% 2025 execution versus 2025 Budget
Transport, Environment, Education, Employment						
ME/Account 603	210,453	163,058	77%	330,908	294,182	89%
ME/Account 785	2,872,974	982,705	34%	3,106.317	683,797	22%
MV/Account 603	49	48	98%	/	/	/
Rural Development						
MD/Account 785	502,028	450,037	89%	485,674	444,597	92%

As for 2025 Budget, as regards EU Integration segment, total of Denar 330 million was allocated as mandatory national co-financing for implementation of IPA-funded projects, as well as additional Denar 3,106 million as donations. Out of the total funds allocated under the 2025 Budget, 89% of the projected national financing and 22% of the projected donations were used. The low utilisation rate of donations is attributable to the IPARD Programme, except for IPARD Programme, which has demonstrated progress in fund absorption due to the strong interest shown by final beneficiaries, reflected in the large number of applications received and contracts concluded with the IPARD Agency.

6.5. Comparison of the Projections of the EU Instrument for Pre-Accession Assistance (IPA) in the Previous Fiscal Strategy with the Projections in the New Fiscal Strategy, as well as Qualitative and Quantitative Explanation of the Major Changes, Including Changes in the Policies

Table 33. Comparison of the Instrument for Pre-Accession Assistance and Budget Funds under 2026-2030 Fiscal Strategy and 2027-2031 Fiscal Strategy

Denar thousand

	2026-2030 Fiscal Strategy	2027-2031 Fiscal Strategy	% changes in the projections
ME/Account 603	2,949,645	6,000,000	100%
ME/Account 785	1,112,919	8,000,000	600%
MD/Account 785	2,251,914	2,543,000	13%

Under both the ME Programmes and the Fiscal Strategy, an increase in budget funds is projected, accompanied by a notable increase in donations. This scenario is attributable to the fact that the major infrastructure projects financed under the Multiannual Programme on Transport and Environment, particularly those in the field of environment (Wastewater Treatment Plants in Bitola and Tetovo, the Central Waste Management Facility in Sveti Nikole, and the six local waste management facilities serving the Eastern and Northeastern regions) will enter their most intensive phase of implementation and construction over the next two to three years. In addition, the three IPA III Programmes in the filed of environment and transport fully finance several major infrastructure projects, (Wastewater Collection and Treatment Investment Project in the Municipality of Shtip, Connection of Vinica WWTP Kochani, together with the Partial Rehabilitation and Extension of Sewerage and Stormwater Systems in the Municipality of Vinica; a Wastewater Treatment Plant in the Municipality of Veles; Reconstruction/Rehabilitation of the Most Critical Bridges on Railway Corridor X; Rehabilitation of Corridor X - VIII Connection, Motorways A1, A2, A4 in the area of "Skopje Triangle" (Miladiniovci - Petrovec, Miladinovci - Hipodrom, Hipodrom - Petrovec. Implementation activities on the ground are expected to commence in 2027. Upon signing the contracts, the initial advance payments are expected to be made promptly, accounting for a significant proportion of the total contract values. Alongside these contracts, direct grants will be disbursed to the Employment Agency in support of active labour market measures, as well as to the International Labour Organisation. As the implementation period for all of these contracts runs until the end of 2031, the entirety of the available funds is expected to be absorbed within the reference period.
Under the Rural Development Programme (IPARD), the 2027–2031 Fiscal Strategy is by 13% higher than the previous Fiscal Strategy, reflecting stable and consistent implementation of the Programme itself.

7. Fiscal Risks and Sensitivity Analysis

Fiscal risks represent the exposure of public finances to certain circumstances that may cause deviations from the projected fiscal framework, most often caused by macroeconomic shocks and execution of any contingent liabilities. Possible materialisation of these risks, assuming conditions different from those taken as basis for the medium-term projections discussed above, would result in deviations from the medium-term baseline scenario, i.e. different performance of the key fiscal variables. Identifying the major fiscal risks that could affect public finances in the medium term represents a starting point in the process of improving fiscal risk management. For certain fiscal risks, data is available, allowing for their identification and for the assessment of their likelihood to impact fiscal indicators over the medium term. However, as for other risks, detailed data may be lacking, nonetheless, their identification raises awareness of the possibility that they could lead to deviations from the planned fiscal framework in the coming period.

Sources of fiscal risks specific for our country are: macroeconomic risks, SOEs, implementation of public investments and PPP, municipalities, public debt and unrepaid liabilities, legal claims against the state and environmental risks. Therefore, this section of the Fiscal Strategy analyses the potential effects on the budget deficit and the general government debt in case any of the several major macro-fiscal risks materialise.

7.1 Macroeconomic Risk Analysis

In the period 2021-2025, domestic economy recorded stable economic growth, with average GDP growth of 3.3%. In spite of an adverse external environment and exposure to multiple shocks, including the consequences of COVID-19 pandemic, geopolitical tensions stemming from the Russia-Ukraine conflict, the deepening energy crisis, rising energy and food prices, as well as disruptions in global supply chains, the economy demonstrated relative resilience and adaptability. The economic growth achieved over the analysed period exceeded the average rates recorded in the European Union, as well as in most major trading partners, indicating relatively more pronounced economic momentum amid global challenges. Against a backdrop of heightened external uncertainty, timely and targeted fiscal and economic policies have played an important role in stabilising economic activity, aimed at mitigating adverse effects and supporting the recovery process. Over the last two years of the analysis period, economic activity has strengthened, with GDP growth reaching 3.0% in 2024 and further accelerating to 3.5% in 2025, reflecting boosted economic activity and positive trends, notwithstanding still prevailing external risks and uncertainties.

During the analysed period, inflation has exhibited significant fluctuations, with a moderate level of 3.1% observed at the beginning of the period. In 2022, inflation accelerated markedly, reaching 14.2%, as a result of global price shocks linked to the energy crisis, geopolitical developments, and sharp increases in energy and food prices on international markets. These factors, amid tighter financial conditions and heightened inflationary expectations, spilled over into the domestic economy, primarily through prices of food products, electricity, and petroleum products In the subsequent period, inflationary pressures gradually eased, with inflation declining to 9.4% and further to 3.5%, reflecting a disinflation process and stabilisation of price trends, amid diminishing global price shocks, also underpinned by government measures to cap prices and trading margins, subsidize energy, and provide tax relief, particularly through reduced VAT rates on basic food products and energy commodities. In 2025, inflation picked up pace again, reaching 4.1%, mainly driven by core inflation and food prices.

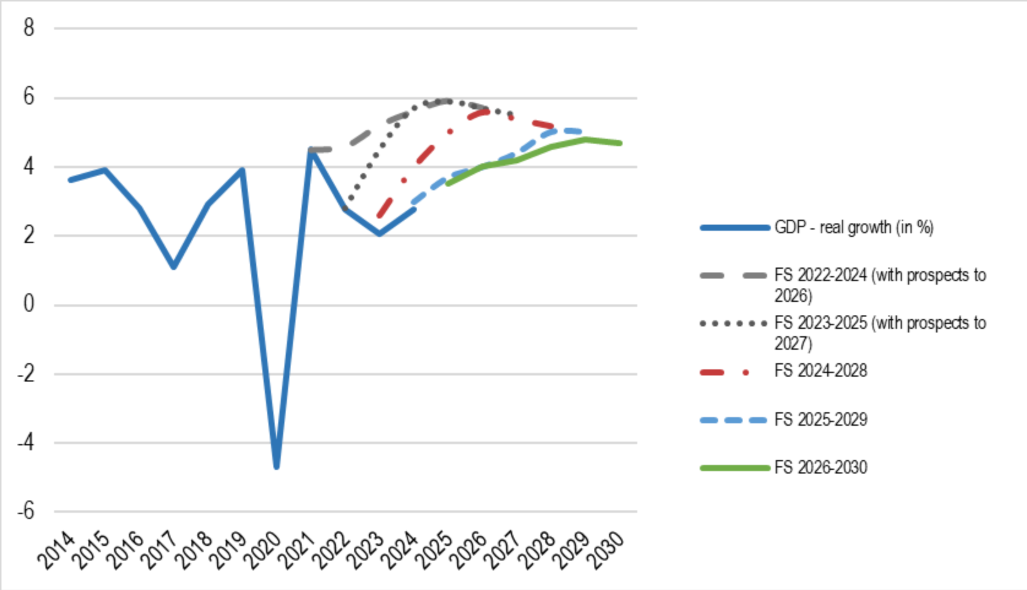
Risks to the global economic outlook pose significant implications for the macroeconomic environment in North Macedonia, given the economy's high degree of openness, its reliance on energy imports, and its exposure to economic developments in its major trading partners. Downside risks are primarily associated with the potential escalation of geopolitical tensions, particularly in the Middle East, which could lead to higher energy and food prices, disruptions to global supply chains, and intensified inflationary pressures. Against such backdrop, as a net energy importer, domestic economy could be exposed to higher import costs, increased inflationary pressures, and a potential deterioration in the external trade position.

Table 34. Review of macroeconomic indicators by years

		2021	2022	2023	2024	2025
Real GDP growth rate (%)	projected	4.1	4.6	2.9	3.4	3.7
	actual	4.5	2.8	2.6	3.0	3.5
Inflation (%)	projected	1.5	2.4	7.1	3.6	2.2
	actual	3.2	14.2	9.4	3.5	4.1
Budget deficit (% of GDP)	projected	-4.9	-4.3	-4.6	-3.4	-4.0
	actual	-5.3	-4.4	-4.6	-4.4	-4.0
General government debt (as % of GDP)	projected	53.2	53.4	51.1	53.4	55.9
	actual	51.4	49.7	49.8	53.8	51.6
Public debt (as % of GDP)	projected	63.4	63.5	60.6	63.2	65.2
	actual	60.3	58.2	58.1	62.4	59.4

Source: Ministry of Finance (State Budget and Public Debt Management Strategy, by years) and State Statistics Office

Chart 22. Gross Domestic Product (performance and projections)

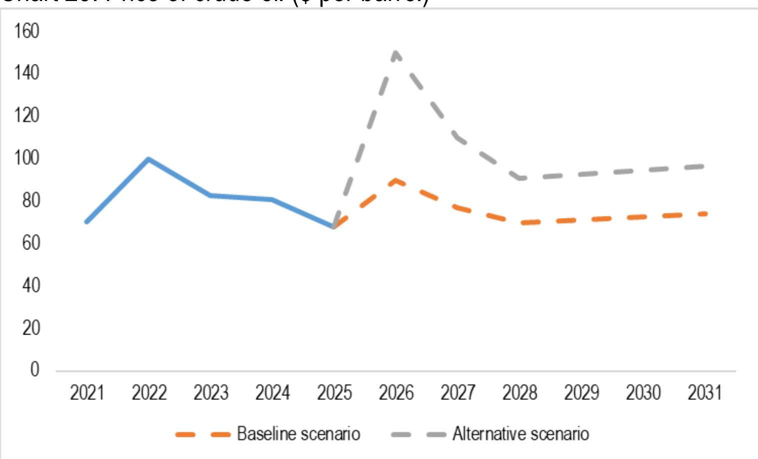


Through analysis of international economic developments and projections, current economic developments in the country, as well as the medium-term macroeconomic projections for the period 2027-2031, is provided in section 1: Macroeconomic Trends and Projections.

Given that the medium-term baseline fiscal projection is based on particular macroeconomic assumptions, they are considered to be primary factor with a potential effect on the fiscal trends. Thereby, main macroeconomic scenario is based on the assumption that the conflict in the Middle East will remain contained and short-lived, and will be resolved by mid-2026. Accordingly, it is also assumed that oil prices would stabilise by mid-2026. In such a scenario, the average crude oil price in 2026 is projected to amount to approximately US$ 90 per barrel. However, this scenario is subject to downside risks should the conflict intensify or persist beyond expectations.

Thereby, an alternative scenario has been simulated, based on a downside scenario in which geopolitical tensions escalate further and the conflict in the Middle East lasts significantly longer than expected. Under such a downside scenario, the average crude oil price is estimated to reach USD 150 per barrel in 2026. This would be followed by a gradual decline in the price of crude oil to US$ 110 per barrel in 2027, and its stabilisation from 2028 onwards at a level 30% higher than the oil price expected under the baseline scenario. The increase in oil prices would subsequently also lead to higher prices of other primary commodities and raw materials.

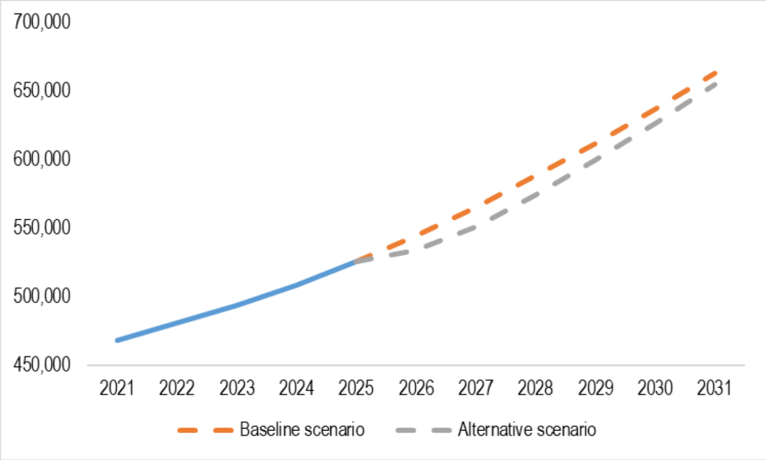
Chart 23. Price of crude oil ($ per barrel)



Source: World Bank and MoF Forecasts

Higher oil and other primary commodity prices would also have an impact on economic activity in the domestic economy. Thereby, GDP growth is projected at 1.6% in 2026, compared to the projected 3.5% growth under the baseline scenario. Growth would account for 3.1% in 2027 (compared to 3.8% under the baseline scenario), while as of 2028 onwards, it would match the growth rates under the baseline scenario. In cumulative terms, by the end of 2031, GDP would be by 1.2% lower compared to the baseline scenario.

Chart 24. GDP by constant prices (2005 = 100) in Denar million, as per the baseline and alternative scenario

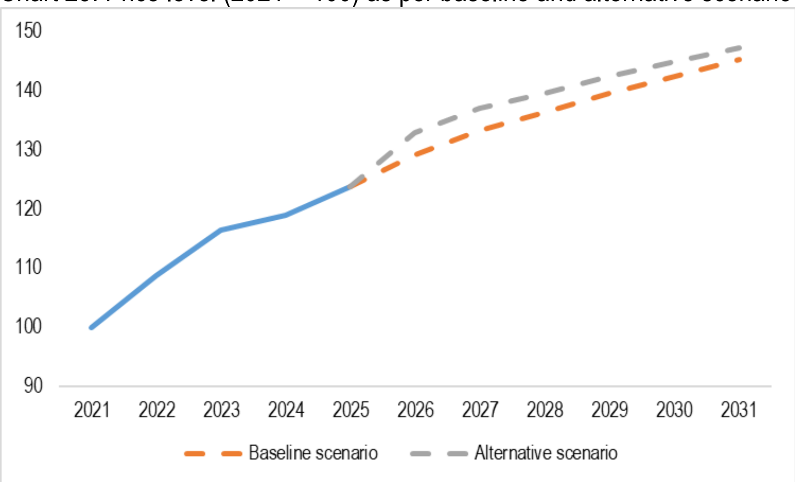


Source: SSO and MoF forecasts

In this scenario, the adverse impact on economic activity is mainly reflected in weaker external demand from the country's trading partners. Thereby, export growth in 2026 would reach 1.9%, (compared to the projected 4.1% under the baseline scenario). Import growth would also moderate, reaching 2.9% (compared to the projected 4.2% under the baseline scenario). However, the impact of lower imports would be less significant than that of lower exports. Driven by higher prices, both private consumption and gross investments would record lower growth under this scenario, with private consumption increasing by 0.7% (compared to 2.3% under the baseline scenario) and gross investment by 6.4% (compared to 7.2% under the baseline scenario). Production gap would remain in negative zone throughout the entire analysed period, but would gradually narrow and move closer to the positive zone.

Higher oil prices and prices of other primary commodities and raw materials would have a significant impact on inflation. Under this scenario, inflation is projected to reach 7.3% in 2026, well above the 4.5% projected under the baseline scenario. From 2027 onwards, the inflation rate would be lower than that projected under the baseline scenario, as a result of weaker demand and a decline in oil prices. However, the price level would remain elevated, with prices in 2031 under the alternative scenario being 1.4% higher than in the baseline scenario.

Chart 25. Price level (2021 = 100) as per baseline and alternative scenario



Source: SSO and MoF forecasts

As a result of automatic stabilisers in the economy, revenues under the alternative scenario would be lower, while expenditures would be higher compared to the baseline scenario. In this case, the deficit-to-GDP ratio in 2026 would be 1.4 percentage points higher than under the baseline scenario, reaching 4.9% of GDP. The deficit would remain higher throughout the 2027–2031 period, averaging 3.7% of GDP, compared to 3.0% of GDP under the baseline scenario. The higher deficit would also lead to an increase in public debt, which would reach 56.9% of GDP in 2026 and rise to 57% of GDP by 2031. This is significantly higher level compared to the baseline scenario, as per which general government debt would account for 52.3% of G in 2031.

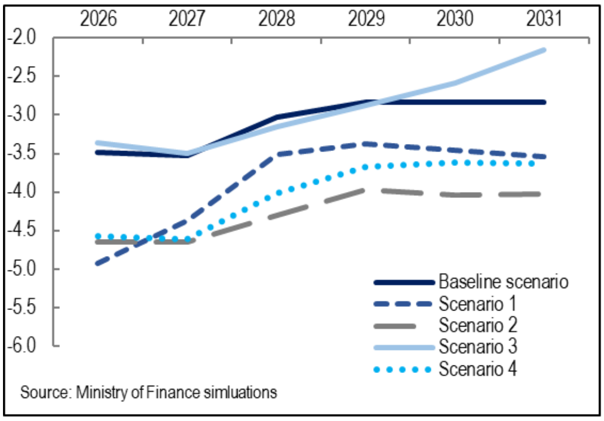
Second risk scenario assumes lower collection of tax revenues by 5% compared to the baseline projection. Against a background of unchanged level of budget expenditures and unchanged economic growth, lowered tax revenues would lead to increased budget deficit by 1.2 p.p. of GDP on average on annual basis in the period 2026 – 2031 compared to the baseline projection, whereas general government debt would be higher by 5.9 p.p. of GDP at the end of 2031 compared to baseline projection.

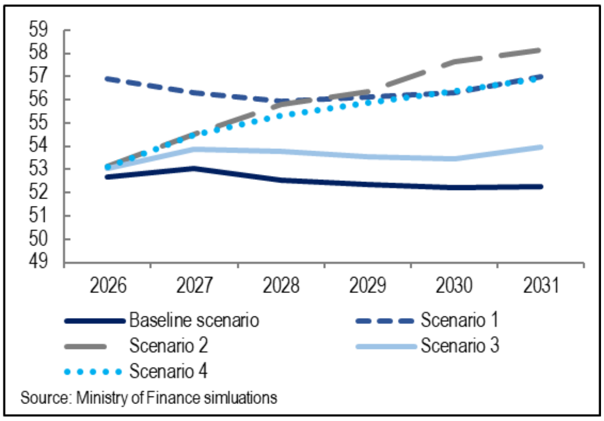
The third alternative scenario assumes lower-than-projected implementation of gross investments, both public and private. According to the scenario, the investment growth rate is assumed to be 25% lower than projected under the baseline scenario throughout the 2026–2031 period, with average gross investment growth rate accounting for 4.5% (compared to an average growth of 6.8% under the baseline scenario). This decline would also affect the import component, which growth would likewise be slightly lower and would account for 4.1% over the 2026–2031 period (compared to an average of 4.5% under the baseline scenario). However, the impact of decline in imports would be smaller than the impact of reduced investments, resulting in average GDP growth of 3.5% over the 2026–2031 period, or 0.4 percentage points below the baseline scenario. In this case, inflation would also be slightly lower, with the average inflation rate being 0.3 percentage points lower over the projection period than under the baseline scenario. As a result of lower public investments, the deficit would be minimally lower, averaging 2.9% over the 2026–2031 period, i.e. 0.2 percentage points lower compared to the baseline scenario, while general government debt would reach 54.0% of GDP by 2031.

Fourth risk scenario assumes sovereign guarantees' principal and interest liabilities to be fully serviced by the State Budget, being an extreme assumption. Possible materialisation of such extreme scenario would result in increase of budget expenditures in the coming period. Against a background of unchanged level of budget revenues and unchanged economic growth, this would cause an increase of budget deficit by 0.9 p.p. of GDP on average on annual basis in the period 2026 - 2031 compared to the baseline projection, whereas the general government debt at the end of 2031 would be higher by 4.7 p.p. compared to the baseline projection. Thereby, the effect of this scenario on the debt would be felt throughout the entire medium-term period.

In summary, materialisation of any of the four risk scenarios, reflecting the main identified macro-fiscal risks in the upcoming period would mostly result in relatively limited effects on the budget deficit and the general government debt (Charts 26 and 27). In more precise terms, the sustainability of the fiscal policy over the medium term is under no threat in any of the cases.

Chart 26: Sensitivity analysis of budget deficit (left) and Chart 27. Analysis of general government debt (right) of the main macro-fiscal risks (% of GDP)





Review of Tax Revenue Collection

Deviations between budget projections and actual public revenues in North Macedonia arise from economic, political, and technical factors. Differences often arise due to unmet forecasts of macroeconomic indicators (economic growth, inflation, final consumption, wage growth, employment, and others), being important input in projecting tax revenues, thus leading to overestimation or underestimation of those revenues. Changes in tax policy, as well as delays in their implementation, also affect revenues. Informal economy, tax evasion, and slow digital reforms cause additional deviations. External factors, such as political instability, global crises, and economic shocks, can lead to underperformance of the projected revenues.

Table 35. Review of projected and collected tax revenues

Budget of the Republic of North Macedonia	2021		2022		2023		2024		2025	
% of GDP	projected	actual	projected	actual	projected	actual	projected	actual	projected	actual
TOTAL REVENUES	29.2%	29.9%	29.3%	29.8%	31.2%	30.7%	32.2%	31.7%	35.1%	32.3%
Tax revenues and contributions	25.5%	26.9%	25.8%	27.0%	27.8%	27.7%	28.9%	29.4%	30.7%	29.5%
Taxes	15.9%	17.0%	16.4%	17.2%	17.8%	17.3%	18.2%	18.3%	19.1%	18.3%
Personal Income Tax	2.8%	2.8%	2.6%	2.9%	2.9%	3.0%	3.2%	3.3%	3.4%	3.3%
Corporate Income Tax	1.6%	1.5%	1.5%	1.9%	1.6%	1.9%	2.0%	2.1%	2.2%	2.1%
VAT (net)	7.2%	8.0%	7.6%	7.9%	8.7%	7.8%	8.4%	8.5%	8.3%	8.4%
Excise duties	3.5%	3.5%	3.5%	3.1%	3.2%	3.0%	3.2%	3.0%	3.4%	3.0%
Import duties	0.8%	1.2%	1.1%	1.2%	1.2%	1.3%	1.3%	1.3%	1.6%	1.4%

Source: Calculations of the Ministry of Finance

When designing budget revenue projections, certain risks, both positive and negative are taken into account, which can affect the revenues in the following ways:

Macroeconomic Projections versus Actual Developments

Excessive or understated GDP growth: Revenue projections are based on expected economic growth (optimistic or pessimistic scenario), but deviations occur due to unexpected recessions, slowdowns, or external shocks (e.g., global crises, economic trends in the EU).

Inflation variability: if inflation is lower than projected, revenues from indirect taxes (VAT and import duties) may decrease. Conversely, inflation higher than expected may lead to an overestimation of nominal revenues.

Changes in tax policy and Insufficient Implementation Commitment

Tax Reforms: Changes in tax or excise rates often lead to revenue deviations that were not fully accounted for when preparing the projections.

Delays in policy implementation: If the planned tax reforms are postponed or executed ineffectively, revenues may fall short of the projected amounts.

Tax Compliance, Tax Collection Efficiency, and Informal Economy

Lower-than-expected tax compliance: revenue projections assume certain level of tax compliance; however, higher tax evasion, informality, or poor enforcement may lead to shortfalls.

Impact of digital reforms: if measures aimed at improving compliance (e.g., digital tax collection, e-invoice) are implemented at a slower pace than anticipated, the collection of projected revenues may deviate significantly.

The informal economy affects deviations from projected budget revenue collection. Low tax morale, poor tax discipline, and tolerance of informality undermine the integrity of the tax system, erode the tax base, and consequently hinder the collection of budget revenues within the projected amounts.

External Economic and Political Shocks

Inconsistencies over the years, driven by delays as regards the EU accession, and fluctuations in foreign investments, result in the underperformance of expected projections, which may have assumed stronger inflows, scaled-up investments, and greater benefits from the economic integration into the single market.

External shocks (pandemics, energy shocks, climate-related disasters, geo-strategic developments, and wars): Sudden global economic downturns impact foreign trade, reducing economic activity and tax revenues.

7.2 Public Debt[5]

Risks to which general government debt and public debt are exposed are thoroughly elaborated in the Public Debt Management Strategy (PDMS), containing forecasts for the general government and public debts dynamics over the medium run, while determining the short-term and medium-term limits and targets for the indicators, pertaining to the risks to which the debt portfolio is exposed, which ultimate goal is optimising the debt structure, all to the end of achieving the lowest possible costs with moderate level of risk.

In addition, the precise projections of interest-related costs when preparing the State Budget have significantly contributed to accomplishing this purpose. On the basis of the data in the table showing the projected and executed amounts of interest-related costs in the period 2019-2025, it is evident that the spent costs range within the projected amounts. From the aspect of share of interest–related costs in GDP, one may conclude that in the 2019-2021 period, share of interests in GDP is maintained at 1.2% of GDP, registering a drop by 0.1 p.p. in 2022. As a result of the increase in interest rates on financial markets accompanied by slowed down economic growth caused by the stagnated global economy in 2023, 2024 and 2025, share of interest-related costs in GDP was increased, reaching 1.4% and 1.9%, respectively.

Table 36. Projected and executed interest-related costs in the 2019-2023 period

Year	Projection		Actual	
	(EUR million)	% of GDP	(EUR million)	% of GDP
2019	149,3	1,3%	131,7	1,2%
2020	134,1	1,2%	130,2	1,2%
2021	153,8	1,3%	147,4	1,2%
2022	163,4	1,2%	148,3	1,1%
2023	209,7	1,4%	209,6	1,4%
2024	286,4	1,8%	289,4	1,8%
2025	324.5	1.9%	322.8	1.9%

Market risks stemming from the changes of interest rates on domestic and international financial markets (interest risk), as well as exchange rate risk constitute key risk factors in public debt management.

Interest rate risk refers to the potential increase in the costs for public debt servicing-related costs resulting from adverse interest rate trends, particularly in relation to debt with variable interest rates or shorter maturities.

Exchange rate risk, in turn, arises from the exposure of public debt to changes in exchange rate trends and is associated with the portion of the debt portfolio denominated in or indexed in foreign currencies, which may affect both the nominal level of public debt and interest payment costs.

These risks are continuously monitored through the Public Debt Management Strategy (PDMS), within which appropriate indicators, limits, and measures are defined for their management and optimisation. In addition, their potential impact is also assessed through sensitivity analysis. Detailed information on the medium-term market risk limits, as well as the results of the sensitivity analysis, is provided in the Public Debt Management Strategy (PDMS).

7.3 Sovereign Guarantees

Sovereign guarantee is the contingent liability assumed by the Republic of North Macedonia on behalf of the public debt issuer, for the account of which the guarantee is being issued.[6]

On 31st December 2025, sovereign guarantees amounted to EUR 1,258.52 million, accounting for 7.4% of GDP, declining by 0.6 p.p. in relation to end-2024.

[5]For the purpose of this section, public debt and general government debt are defined in line with the National Methodology set in the Law on Public Debt, as per which general government debt covers all liabilities incurred on the basis of indebtedness by the central government entities, local government and extra-budgetary funds, whereby public debt covers liabilities incurred on the basis of general government debt and debt of public enterprises founded by the state or the municipalities. Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/05, 88/08, 35/11, and "Official Gazette of the Republic of North Macedonia", nos. 98/19, 151/21 and 12/2025)

[6] Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/05, 88/08, 35/11, and "Official Gazette of the Republic of North Macedonia", nos. 98/19, 151/21 and 12/2025)

Table 37. Stock of Sovereign Guarantees on 31st December 2025

Business Entity/Main Debtor (guarantee beneficiary)	EUR million	% of total	% of GDP
AD ESM	254.7	20.2	1.5
AD MEPSO	5.8	0.5	0.03
Development Bank of North Macedonia	227.3	18.1	1.3
Macedonian Railways Transport JSC	9.9	0.8	0.1
Public Enterprise for State Roads	744.7	59.2	4.4
Public Transport Enterprise Skopje	4.3	0.3	0.03
National Forests Public Enterprise	1.8	0.1	0.01
NOMAGAS	10.0	0.8	0.06
Total	**1,258.5**	**100.0**	**7.43**

Taking into account the contingent liability in the State Budget arising from sovereign guarantees, caution is to be taken for their sustainability. In fact, considering the many guarantees issued for loans extended to the Public Enterprise for State Roads, intended for financing road infrastructure projects, maintaining sustainable level of the issued guarantees is crucial, adhering thereby to the mid-term limit for sovereign guarantees as percentage of GDP set under the Public Debt Management Strategy.

As regards caution to be undertaken, process of issuance of sovereign guarantees is regulated under the Law on Public Debt and the respective bylaws. According to these acts, when making decision on issuance of sovereign guarantee, the Ministry of Finance is to carry out a credit analysis, i.e. to assess the creditworthiness of the public debt issuer, by assessing its liquidity, solvency and profitability. Thus, managing contingent liabilities has been significantly improved and aligned with the international practice on issuance of sovereign guarantees.

7.4 State-Owned Enterprises

SOEs, by performing activities of public interest, play an important role in public finances and the economy, and are central to carrying out policies and implementing strategic plans aligned with the priorities of the Government of the Republic of North Macedonia.

Taking into account that they provide essential public services and are key players in implementing public policies, it is necessary to strengthen their governance and ensure higher standards of transparency and accountability.

Poor performance of SOEs may undermine the fiscal discipline, contribute to rising debt, distort the markets and jeopardise the macroeconomic stability. Inefficient SOEs crowd out private investments and lower productivity, thereby limiting the economic growth and the competitiveness. They often impose a substantial strain on public finances trough subsidies, capital transfers and budget support, while their debt, guarantees and quasi-fiscal activities generate substantial contingent liabilities.

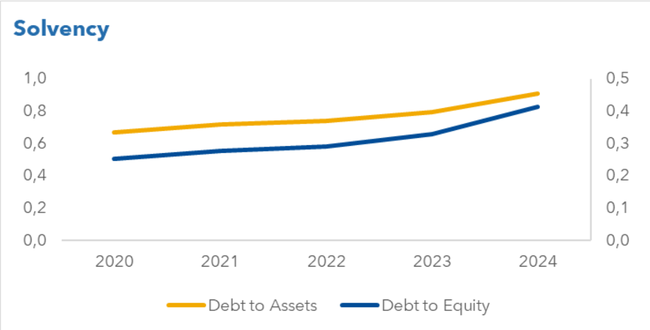
For the purpose of establishing SOEs financial performance indicators (liquidity, profitability and solvency), as key financial indicators for evaluating the fiscal risks of SOEs, the Ministry of Finances processes the data presented in Section **2.6 SOEs - Monitoring and Financial Performance**.

An analysis of the key financial indicators across 29 SOEs produced the following outcome:

- **Liquidity indicators** signal a potential liquidity problem, i.e. limited ability of some of the SOEs to pay off short-term liabilities. Receivables are collected over longer periods, indicating high risk and collection issues - most pronounced among SOEs operating in the water management sector. As for obligations to creditors, they are settled with considerable delay, reflecting the need for their deferred settlement by some SOEs, such as the Public Enterprise for State Roads, PE “Collector System” Ohrid and JSC “Railways of Republic of North Macedonia – Transport” - Skopje.

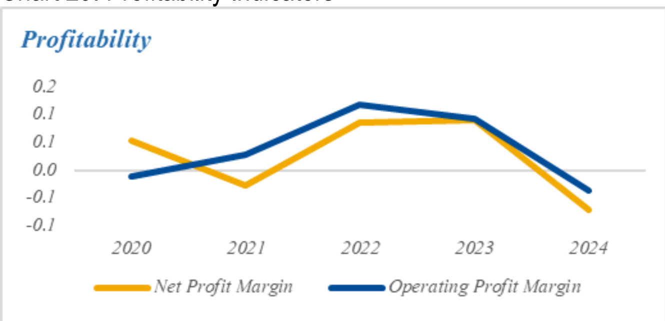
- **Solvency indicators** for 2024 show that some SOEs (JSC “Power Plants of North Macedonia”, state owned, JSC “Railways of Republic of North Macedonia – Transport” - Skopje, Public Enterprise for Railway Infrastructure “Railways of Republic of North Macedonia” - Skopje and JSC “Post of North Macedonia” - Skopje) face difficulties in timely repayment of long-term debt and sustaining financial stability, i.e. they show high risk in repayment of loan interest and principal, necessitating priority monitoring to timely mitigate potential fiscal risks to the State Budget.

Chart 28. Solvency Indicators



- Profitability indicators assess the ability of SOEs to manage assets and capital in generating profit and whether they generate enough revenues to cover operating costs. The analysis indicates that all SOEs fall into the high-risk category, with low average profitability rate.

Chart 29. Profitability Indicators



SOEs are obliged, pursuant to the Law on Reporting and Recording of Liabilities, to report, on monthly basis, undue liabilities and arrears in the Electronic System for Reporting and Recording Liabilities, being kept by the Ministry of Finance. On the basis of the recorded data on reported liabilities, Ministry of Finance publishes, in continuity and on quarterly basis, summary reports on its website, thus additionally contributing to strengthened and increased transparency.

On the basis of the data reported by SOEs in the Electronic System for Reporting and Recording Liabilities, as of December 2025 inclusive, liabilities amounted to Denar 14,483,491,615 and, relative to the same period in 2024, they dropped by Denar 3,849,305,405 in absolute terms, corresponding to a decline of approximately 27%. Analysis by SOE indicates that the highest share of liabilities is reported by:

- JSC “Railways of Republic of North Macedonia – Transport” - Skopje and Public Enterprise for Railway Infrastructure “Railways of Republic of North Macedonia” - Skopje, accounting for 68.35% of the reported liabilities, as these two transport enterprises hold the largest share of borrowing, correlated with their scaled-up investments, and
- JSC “Power Plants of North Macedonia”, state owned, accounting for 24.2% of the reported liabilities, reflecting a significant share, given its role in ensuring energy security and stable energy supply.

Thereby, highest increase reported liabilities from 2024 to 2025 is observed at JSC “Power Plants of North Macedonia”, state owned - 75%, followed by Public Enterprise for Railway Infrastructure “Railways of Republic of North Macedonia” - Skopje and JSC “Railways of Republic of North Macedonia – Transport” - Skopje by 36.91% and 16.3% respectively.

These results stress the critical need for continuous monitoring and analysis of liquidity, solvency and profitability indicators, so as to ensure effective governance and monitoring, since their evolving patterns are a potential threat to the fiscal stability and exert fiscal pressure on the Budget of the Republic of North Macedonia.

7.5 Local Government

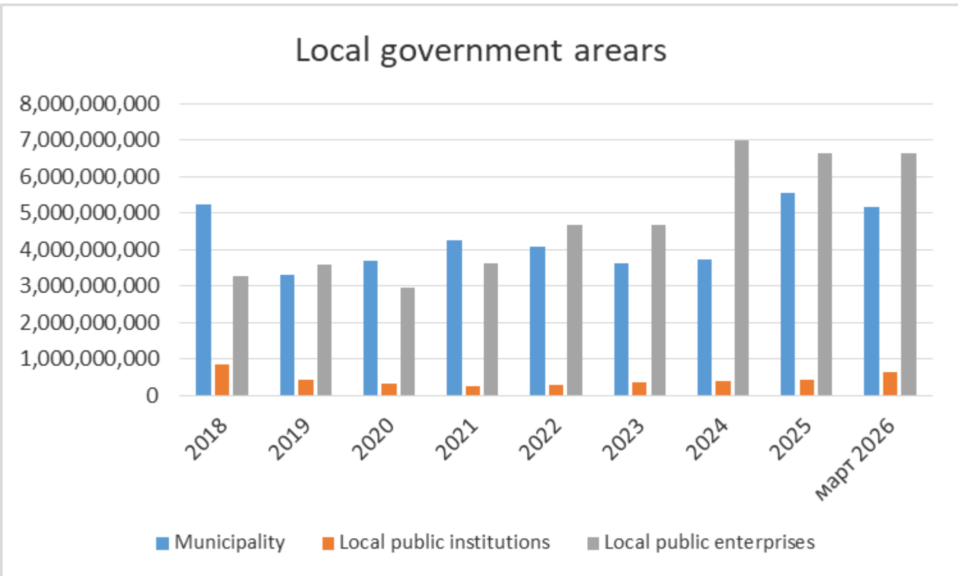
In the course of their operations, municipalities face many challenges related to revenue collection and expenditure execution. As a result of certain objective or subjective factors, fiscal risks occur when collecting revenues and executing expenditures. In recent years, one of the main risks facing municipalities has been unrealistic budget planning. However, the introduction of the fiscal rule for budget planning has helped reduce such deviations. Hence, in 2025, municipalities executed over 90% of their planned budgets, significantly lowering fiscal risk on one hand, while also reducing the risk of accumulating large amounts of arrears, which negatively impact their financial operations. Analysis of municipal financial operations is provided in Section 2.5 Local Government Budget.

In addition to the above-mentioned, financial performance of municipalities entails risks, in most part occurring as increased arrears and meeting the criteria for declaring financial instability. Moreover, arrears by the local public institutions and the municipal public enterprises affect the financial operations of the municipalities (Chart 30). According to the data from the Electronic System for Reporting and Recording Liabilities, municipal unpaid liabilities, as of March 2026, totaled Denar 5,155 million, dropping by 7.4% compared to end-2025. Analysis of total arrears shows that seven municipalities with the highest amount of arrears in March 2025 represent about half of the total arrears of all municipalities. Accordingly, it can be concluded that municipalities with substantial arrears make up a small portion of the total number of municipalities, pointing to a severe financial instability of a limited number of municipalities, rather than across all of them.

Should municipal arrears at the end of 2025 be analysed, a notable increase of around 49% can be noted relative to end-2024. Such increase was due to intensified investment activity and implementation of infrastructure projects funded by the Budget of the Republic of North Macedonia. Considering the large number of projects and their value, as well as the payment schedule tied to interim payment certificates (cash flow), arrears are expected to rise further. Nevertheless, such arrears do not pose any threat to the financial performance of the municipalities, given the funds to settle them are allocated from the Budget of the Republic of North Macedonia.

Ministry of Finance monitors the financial performance of the municipalities on quarterly basis based on the periodic financial reports on arrears and the data on blocked accounts. Pursuant to the Law on Financing Local Government Units, one of the requirements for declaring financial instability is for the total arrears exceeding over 60 days in a six-month period, continuously every month, as of the end of the each respective month inclusive, not to exceed 60% of the municipality's core budget revenues collected in the previous year. According to Q4 2025 data, 10 municipalities met the criteria for declaring financial instability.

Chart 30. Municipal Arrears



As of March 2026 inclusive, arrears of local public institutions amounted to Denar 649 million, increasing by 47.4% compared to December 2025. In addition, the analysis shows that arrears as of December 2025 rose by 15.6% compared to those recorded in the same period in 2024.

Arrears of local public enterprises in March 2026 amounted to Denar 6,631 million, slightly dropping by around 0.3% compared to 2025. In December 2025, arrears stood at about Denar 6,654 million, reflecting a 4.9% reduction compared to December 2024. A major operation risk for the municipalities has been identified in the substantial transfers to local public enterprises, intended for addressing their weak financial standing. In 2024, subsidies to local public enterprises amounted to around Denar 1.2 million, reaching Denar 1.4 million in 2025. This underscores that many local public enterprises exhibit weak financial standing, requiring further support to stabilise. Section 3.2 Report on Recorded Arrears pursuant to the Law on Reporting and Recording Liabilities includes a detailed analysis of the arrears.

7.6 Public Investments

Risks to infrastructure projects usually materialise as increased project costs or delays during project implementation phase, with the risk factors being determined already in the project preparation and appraisal phase. Therefor, risk assessment is to commence as early as the project preparation phase, with the Project Concept Note, the risks being defined in more details in the feasibility study, which will contribute to undertaking timely and better informed actions to overcome or mitigate them. With the adoption of the Organic Budget Law in September 2022 and the Decree on Public Investment Management ("Official Gazette of the Republic of North Macedonia, no. 78/25), standardised procedures for preparation, evaluation and selection of infrastructure projects are introduced, enabling the Government to prepare Final Priority List of Public Investment Project Proposals. Activities regarding the adoption of the first Final Priority List of Public Investment Project Proposals are entering their final stage. The List of Project Idea Proposals, including Project Concept Note, prepared by the project proposer and checked and assessed by the Ministry of Finance, is undergoing review process carried out by the Public Investment Committee. Pursuant to the Decree on Public Investment Management, the Government adopts the first Final Priority List of Public Investment Project Proposals, without thereby ranking the project ideas, i.e. without their prioritisation. The budget user select and propose new initiatives - public investment projects from the Final Priority List of Public Investment Project Proposals.

As regards the introduction of a risk-based centralised monitoring, once the funding for the project is secured, the responsibility for its implementation falls on the project initiator, who is responsible for its implementation and monitoring its financial and physical progress throughout the implementation phase.

In addition to the continuous monitoring, an obligation is introduced for the Project Initiator to prepare and submit quarterly monitoring reports to the Ministry of Finance, containing information on both the financial and the physical implementation of the project. This process was launched in Q3 2025, with the Project Initiators having submitted Quarterly Monitoring Reports. Ministry of Finance, through regular communication with the public entities having submitted the reports, reviews the reports and gives instructions for adjustments where necessary.

Such reports serve as crucial documentation to monitor the progress of the project, aimed at better budget planning and assessment of fiscal risks arising from the public investment project. They are also instrumental in maintaining transparency and accountability.

On the basis of data provided by the Project Initiators, the Ministry of Finance is in the process of preparing a semi-annual summary report on the implementation of the public investment project portfolio and submits it to both the Public Investment Committee and the Government. Thus, the Government has insight into the project status and should any deviation be identified as regards the planned time schedule and/or costs, it may request additional information from the Project Initiator related to such deviation or decide to adjust, suspend or terminate the project. Hence, special rules are set on fundamental review of projects deviating from the initial project implementation plan as regards project costs exceeding the initially projected ones and implementation delays. Thus, proactive action will be taken as regards project risk management, all to the end of minimising their fiscal impact.

Table 38. Financing Corridor 8/10d Project

		2022		2023		2024		2025		2026	
project	implementer	Budget	final account	Budget	final account	Budget	final account	Budget	final account	Plan	Realization 24.04.2026
Coridor 8 and 10d	Public Enterprise for State Roads	5,938,874	0	15,000,000	14,500,000	15,100,000	4,100,000	8,000,000	7,189,393	6,334,000	4,875,686

Over the past period, substantial amount of funding was allocated through the Budget of the Republic of North Macedonia for financing Corridor 8/10d Project, which envisages the design and the construction of part of Corridor 8, the planning, the design, the construction and the use of part of Corridor 8 Tetovo - Gostivar section/highway extension, construction of new Highway Trebenishta - Struga - Kjafasan, construction of Gostivar - Bukojcani and Bukojcani - Kicevo sections, as well as Corridor 10d, Prilep - Bitola section.

Pursuant to the amendments to the Law on Determining Public Interest and Nominating a Strategic Partner for the Implementation of the Project for Construction of Corridor 8 Tetovo - Gostivar - Bukojchani section and the new Highway Trebenishta - Struga - Kjafasan) and Corridor 10d (Prilep - Bitola section) in the Republic of North Macedonia, coming into effect on 1st June 2026, financial resources for the project implementation and the related land acquisition activities will be provided, either jointly or separately, by the investor - the Public Enterprise for State Roads, while payments to the strategic partner will be made in compliance with the applicable laws.

Furthermore, to fund the key road infrastructure projects, the Public Enterprise for State Roads is envisaged to undertake borrowing secured by a sovereign guarantee, financing the Project for Construction of Kichevo - Ohrid Motorway Section, as well as construction of Corridor 8 Tetovo - Gostivar - Bukojchani section and Trebenishta - Struga - Kjafasan highway) and Corridor 10d (Prilep - Bitola section) in the Republic fo North Macedonia.

7.7 Public-Private Partnership

Pursuant to the existing Law on Concessions and Public-Private Partnership, Ministry of Energy, Mining and Minerals is the authority in charge of public-private partnership (PPP) and it keeps the Registry of Concluded PPP Contracts. The Registry is kept in paper form and an excel table, containing data on concluded PPP contracts reported by the public partners, i.e. the authorities in charge of implementing the contracts, on the basis of a stipulated form. At the moment, the Registry of Concluded PPP Contracts lists 67 concluded contracts, of which 19 PPP contracts as concessions and 48 as public procurement contracts. In terms of the level at which the contracts were concluded, they are divided into those concluded by the central government (11) and by the local authorities (56). Sector-wise, contracts are categorised as: 1/energy efficiency (3 contracts), 2/photovoltaics/photovoltaic plants (4 contracts), 3/hydro power plants, small and large (9 contracts), 4/public lighting (21 contracts), 5/sports complexes (10 contracts), 6/municipal waste (6 contracts), 7/parking and parking services (8 contracts), 8/health services (1 contract) and 9/administrative-commercial buildings (5 contracts). However, the Register lacks comprehensive data and parameters from the signed contracts and provides only limited financial information. Available data includes partial details such as the contract value (estimated investment), the percentage of the concession fee, certain information on property rights transfers, and monetary payments by the public partner, where applicable.

Implementation of the current legal framework has revealed several weaknesses, particularly in the planning, selection, preparation and approval of PPP projects, as well as in the monitoring and oversight of both PPP contract award procedure and contract implementation process. To address these gaps and establish an effective PPP and concessions system and to align with the EU legislation, a new Draft Law on Public-Private Partnership has been prepared and is currently in its finalisation phase, with a working group being established therefor, comprising representatives from several institutions. Moreover, the Government plans to develop a Single Electronic PPP System to carry out the entire PPP award procedure — from initial publication to contract award. This system will include the establishment of a new Register of Signed/Awarded Contracts, serving as a centralised digital database for the entire PPP contract award process at both central and local levels. The goal is to enable consistent monitoring of the implementation of PPP and concession projects (including project planning, preparation and approval, tender procedures, selection of the most favourable bidder, contract signing, implementation and contract monitoring, etc.). This will provide a foundation for a more effective management of the fiscal risks associated with such projects.

7.8 Legal Claims

Budget payments related to settlement of court claims against the state has recorded an upward trend in recent years, as has the number of court proceedings filed against the state. The number of civil lawsuits rose from 14,871 in 2020 to 29,690 in 2024, being an increase of 99.7%. Over the same period, payments from the Budget increased from EUR 16.5 million in 2020 to EUR 36 million in 2024 (accounting for 0.6% of the budget expenditures), increasing by 118.7%.

The majority of the litigation proceedings (more than two-thirds) are labour disputes brought by employees of state bodies and institutions under the labour legislation (Law on Administrative Servants, Labour Relations Law, Collective Agreements and other lex specialis laws and by-laws governing employment relations). These are followed by commercial disputes related to contracts and torts (on the basis of the Law on Contracts and Torts and public procurement contracts, capital investments/infrastructure projects and concession agreements). The remaining cases (approximately one-tenth) involve property disputes and other legal matters. Additionally, there are court proceedings filed against public enterprises, state-owned joint stock companies, local government units and arbitration cases, for which the State Attorney's Office does not hold detailed information.

Table 39: Funds Paid by Year and Number of Litigation Proceedings

Year	Denar million	No. of litigation proceedings*
2020	1,016.6	14,871
2021	1,436.4	18,278
2022	1,304.7	23,459

2023	2,157.0	26,717
2024	2,223.7	29,690
2025	1,617.5	/
2026	1,838.1**	/

Source: Ministry of Finance; *State Attorney's Office (as of the end of the year)

**Estimations regarding the projected funds for 2026 on the basis of Q1 2026 execution

The State Attorney's Office does not currently operate a unified IT system for automatic case management, which hinders the process of analysing the legal claims lodged against the state, including the potential financial risks. Activities are underway to introduce an IT system that will provide case tracking, automatic allocation, document flow and management, and development of databases for statistical data, thereby strengthening the capacity for analysing, monitoring and planning the effects of fiscal risks related to court disputes.

7.9 Environmental Risks

Pursuant to the OBL provisions, it is prescribed for funds for budget reserve requirement to be provided in the Budget, to be used for eliminating the consequences from natural disasters, environmental disasters, state of emergency and crisis situation, as well as pandemics and epidemics. Hence, as regards the funds projected as reserve requirement for eliminating the consequences from state of emergency and natural disasters in 2026, Denar 200 million is projected in the 2026 Budget of the Republic of North Macedonia, Denar 100 million out of which (position Permanent Reserve Requirement) is intended for eliminating the consequences from: natural disasters, epidemics and environmental disasters.

Table 40. Projected and Executed Funds under Permanent Reserve Requirement

Year	Projected Funds	Executed Funds
2021	Denar 100 million	Denar 93.5 million
2022	Denar 100 million	Denar 268.5 million
2023	Denar 100 million	Denar 50.7 million
2024	Denar 100 million	Denar 9.2 million
2025	Denar 100 million	Denar 76.0 million

Source: Ministry of Finance

Natural disasters which the country is exposed to include floods, wildfires, droughts, landslides, earthquakes, other disasters, epidemics caused by infectious diseases in humans and animals, etc. According to the international disaster database, floods are the most common phenomenon in the country, accounting for around 50% of the total registered natural disasters, followed by extreme weather conditions (25%), wildfires (12.5%), drought (6.3%) and storms (6.3%).

When natural disasters occur, the Crisis Management Centre experiences increased spending, notably in wages and benefits, as well as goods and services (travel expenses, communication and transport services, materials, repairs and other operating costs). In the period 2021–2023, increased spending was mainly covered by reallocating funds within the Budget and under the Supplementary Budget. In 2024, the Government, by a Decision, approved Denar 10.5 million from budget reserves to address fires. While part of these funds was spent on logistics and operating costs, overtime compensation for the personnel was not approved, leading the employees to pursue legal proceedings. In 2025, the Crisis Management Centre again requested additional funds to operate during a state of crisis caused by fires, with portion of the costs being covered within the existing budget, while certain obligation remain pending for further considered and settlement.

Natural disasters result in damage to productive capital and infrastructure, which in turn leads to a contraction in domestic economic activity and lower GDP growth. This effect is most pronounced in the year the disaster occurs. In addition, due to reduced public revenues and increased public expenditures, the shock from a natural disaster leads to widening of the fiscal deficit, ultimately creating the need for additional financing and resulting in higher public debt.

8. Expected Results of Medium-Term Projections

Medium-term five-year Fiscal Strategy provides a fiscal framework for public finance management and, through prudent fiscal consolidation, the Government lays the foundation for sustainable economic growth and strengthened fiscal stability.

As per the fiscal projections, the expectations in the medium run are the following:

- Macroeconomic stability and fiscal sustainability,
- accountable fiscal policy in support of economic growth, by adhering to the numeric fiscal rules,
- disciplined budget spending via efficient absorption of the funds and generating improved operational performance by rendering better-quality public services and digitialising public sector services, as well as
- execution of capital expenditures and implementation of infrastructure projects in the priority areas, in line with the government policies, which will generate positive effects on medium-term economic growth.

By setting clear quantitative targets and prudently designed fiscal projections, the medium-term Fiscal Strategy provides a stable and predictable framework for public finance management, while ensuring fiscal consolidation and an effective response to petroleum product price pressures.

Appendix 1

Account 630 – Core Budget Expenditures

Organisational code	2027	2028	2029	2030	2031
01001 PRESIDENT OF THE REPUBLIC OF NORTH MACEDONIA	130,585,000	137,349,000	142,714,000	147,456,000	153,332,000
01002 INTELLIGENCE AGENCY	390,459,000	420,424,000	446,638,000	472,117,000	498,173,000
02001 PARLIAMENT OF THE REPUBLIC OF NORTH MACEDONIA	1,220,532,000	1,260,453,000	1,304,574,000	1,328,786,000	1,384,176,000
02002 STATE AUDIT OFFICE	224,638,000	239,717,000	255,760,000	270,187,000	282,952,000
02003 STATE COMMISSION FOR PREVENTION OF CORRUPTION	92,511,000	102,632,000	111,372,000	125,943,000	129,283,000
02004 STATE ELECTION COMMISSION	148,413,000	1,421,923,000	1,636,038,000	153,323,000	158,495,000
02005 COMMISSION FOR PROTECTION OF COMPETITION	50,254,000	51,330,000	53,817,000	56,720,000	59,150,000
02006 AGENCY FOR PERSONAL DATA PROTECTION	28,283,000	27,011,000	28,144,000	28,198,000	29,184,000
02007 STATE COMMISSION FOR APPEALS IN PUBLIC PROCUREMENT	45,641,000	45,506,000	48,226,000	49,983,000	51,807,000
02009 HOUSING REGULATORY COMMISSION	16,429,000	17,283,000	18,057,000	18,706,000	19,378,000
02010 COUNCIL ON AUDIT ADVANCEMENT AND OVERSIGHT	8,306,000	8,777,000	8,924,000	9,277,000	9,645,000
02011 COMMISSION FOR PREVENTION AND PROTECTION AGAINST DISCRIMINATION	39,263,000	41,311,000	43,169,000	44,727,000	46,344,000
02012 STATE COMMISSION FOR DECISION-MAKING IN ADMINISTRATIVE PROCEDURE, EMPLOYMENT PROCEDURE, AND SECOND-INSTANCE INSPECTION SUPERVISION	109,043,000	114,895,000	120,196,000	124,637,000	129,257,000
02013 AUDIT AUTHORITY FOR AUDIT OF THE INSTRUMENT OF PRE-	55,776,000	58,563,000	61,092,000	63,220,000	65,428,000

ACCESSION ASSISTANCE					
02015 OPERATIONAL-TECHNICAL AGENCY	61,355,000	63,881,000	66,188,000	68,151,000	70,186,000
02016 FISCAL COUNCIL	10,925,000	11,302,000	11,650,000	11,949,000	12,256,000
03001 CONSTITUTIONAL COURT OF THE REPUBLIC OF NORTH MACEDONIA	109,180,000	114,340,000	119,029,000	122,987,000	127,098,000
04001 GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA	3,099,201,000	3,366,215,000	3,330,949,000	3,691,920,000	3,854,150,000
04002 SERVICE FOR GENERAL AND COMMON AFFAIRS OF THE GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA	1,344,997,000	1,374,368,000	1,411,964,000	1,446,720,000	1,502,238,000
04003 LEGISLATIVE SECRETARIAT	32,790,000	34,566,000	36,079,000	37,391,000	38,803,000
04006 STATE ATTORNEY'S OFFICE OF THE REPUBLIC OF NORTH MACEDONIA	256,789,000	269,571,000	282,054,000	292,508,000	303,389,000
04008 ADMINISTRATION AGENCY	50,365,000	52,893,000	55,187,000	57,115,000	59,118,000
04009 MINISTRY FOR EUROPEAN AFFAIRS	193,036,000	199,991,000	206,358,000	211,807,000	217,447,000
04010 MINISTRY FOR INTER-COMMUNITY RELATIONS	181,499,000	190,144,000	198,001,000	204,632,000	211,520,000
04012 AGENCY FOR EXERCISING THE RIGHTS OF THE COMMUNITIES	20,234,000	21,283,000	22,234,000	23,033,000	23,860,000
04013 AGENCY FOR MANAGEMENT OF CONFISCATED PROPERTY	42,073,000	44,475,000	46,647,000	48,461,000	50,351,000
04015 LANGUAGE IMPLEMENTATION AGENCY	37,699,000	39,387,000	40,923,000	42,225,000	43,572,000
04016 AGENCY FOR INNOVATION, SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT, AND ENTREPRENEURSHIP	513,343,000	528,997,000	544,579,000	560,021,000	575,542,000
05001 MINISTRY OF DEFENCE	19,174,368,000	20,461,760,000	21,811,728,000	23,232,176,000	24,645,504,000
05002 DIRECTORATE FOR SECURITY OF CLASSIFIED INFORMATION	44,667,000	46,826,000	48,787,000	50,438,000	52,150,000
05003 PROTECTION AND RESCUE DIRECTORATE	312,185,000	324,328,000	335,423,000	354,882,000	366,693,000
05004 CRISIS MANAGEMENT CENTER	359,596,000	377,789,000	394,282,000	408,123,000	422,521,000
06001 MINISTRY OF	15,420,059,000	16,160,477,000	17,075,313,000	17,747,797,000	18,472,174,000

INTERNAL AFFAIRS					
06003 NATIONAL SECURITY AGENCY	578,719,000	609,053,000	636,549,000	659,615,000	683,613,000
07001 MINISTRY OF JUSTICE	841,190,000	857,474,000	892,914,000	917,999,000	942,442,000
07002 DIRECTORATE FOR ENFORCEMENT OF SANCTIONS	1,786,596,000	1,907,385,000	1,995,897,000	2,073,044,000	2,162,625,000
07003 VITAL RECORDS OFFICE	338,517,000	358,698,000	375,403,000	389,801,000	404,688,000
07004 BUREAU FOR REPRESENTATION OF THE REPUBLIC OF NORTH MACEDONIA BEFORE THE EUROPEAN COURT OF HUMAN RIGHTS	10,360,000	10,813,000	11,227,000	11,577,000	11,936,000
08001 MINISTRY OF FOREIGN AFFAIRS AND FOREIGN TRADE	1,798,143,000	1,886,078,000	1,937,439,000	1,955,415,000	2,001,353,000
09001 MINISTRY OF FINANCE	1,484,614,000	1,418,692,000	1,349,075,000	1,274,914,000	1,308,828,000
09003 CUSTOMS ADMINISTRATION OF THE REPUBLIC OF NORTH MACEDONIA	1,541,445,000	1,632,018,000	1,715,050,000	1,786,324,000	1,820,080,000
09004 COMMODITY RESERVES AGENCY	134,598,000	197,045,000	239,350,000	271,429,000	333,561,000
09005 PUBLIC REVENUE OFFICE	3,907,968,000	3,989,549,000	4,065,874,000	4,533,878,000	4,803,924,000
09006 FINANCIAL POLICE OFFICE	107,239,000	113,818,000	119,839,000	125,055,000	130,438,000
10001 MINISTRY OF ECONOMY AND LABOUR	5,736,809,000	5,280,274,000	4,428,774,000	4,719,597,000	4,509,906,000
10002 AGENCY FOR FOREIGN INVESTMENTS AND EXPORT PROMOTION OF THE REPUBLIC OF NORTH MACEDONIA	67,686,000	70,904,000	73,830,000	76,297,000	78,857,000
10004 DIRECTORATE FOR TECHNOLOGICAL INDUSTRIAL DEVELOPMENT ZONES	1,763,097,000	1,786,854,000	1,810,063,000	1,832,330,000	1,894,994,000
10101 MINISTRY OF ENERGY, MINING AND MINERAL RESOURCES	1,164,965,000	398,602,000	526,745,000	473,999,000	521,686,000
12101 MINISTRY OF ENVIRONMENT AND PHYSICAL PLANNING	773,562,000	791,766,000	808,683,000	823,570,000	838,912,000
13001 MINISTRY OF TRANSPORT	10,202,744,000	4,162,218,000	2,596,617,000	2,628,320,000	2,660,672,000
MINISTRY OF AGRICULTURE, FORESTRY	1,630,303,000	1,695,537,000	1,954,829,000	2,105,107,000	2,258,401,000

AND WATER ECONOMY					
14002 AGENCY FOR PROMOTION OF AGRICULTURE DEVELOPMENT - BITOLA	101,115,000	105,672,000	111,515,000	115,652,000	119,955,000
14003 NATIONAL HYDROMETEOROLOGICAL SERVICE	141,084,000	148,324,000	154,891,000	160,404,000	166,136,000
14004 AGENCY FOR FINANCIAL SUPPORT OF AGRICULTURE AND RURAL DEVELOPMENT	7,677,142,000	9,796,562,000	9,551,008,000	10,036,588,000	10,445,309,000
14005 FOOD AND VETERINARY AGENCY OF THE REPUBLIC OF NORTH MACEDONIA	544,480,000	577,490,000	596,477,000	616,305,000	725,312,000
15001 MINISTRY OF SOCIAL POLICY, DEMOGRAPHICS AND YOUTH	84,705,988,000	86,412,991,000	86,563,243,000	84,920,178,000	82,528,415,000
16001 MINISTRY OF EDUCATION AND SCIENCE	43,389,945,000	45,558,874,000	47,069,981,000	49,663,081,000	51,661,553,000
16002 EDUCATION DEVELOPMENT BUREAU	309,287,000	320,855,000	331,439,000	340,484,000	349,854,000
16003 NATIONAL AGENCY FOR EUROPEAN EDUCATIONAL PROGRAMMES AND MOBILITY	33,924,000	35,636,000	37,189,000	38,495,000	39,850,000
16201 MINISTRY OF SPORT	887,302,000	998,222,000	1,058,989,000	1,148,288,000	1,180,111,000
17001 MINISTRY OF DIGITAL TRANSFORMATION	2,339,408,000	2,439,185,000	2,528,338,000	2,566,406,000	2,604,952,000
17101 MINISTRY OF PUBLIC ADMINISTRATION	260,295,000	240,540,000	249,954,000	256,809,000	263,947,000
18001 MINISTRY OF CULTURE AND TOURSIM	378,383,000	391,913,000	404,315,000	414,952,000	425,969,000
18010 FINANCING ACTIVITIES IN THE AREA OF CULTURE	6,047,599,000	6,767,452,000	6,921,675,000	7,060,956,000	7,344,584,000
19001 MINISTRY OF HEALTH	7,869,325,000	6,617,584,000	5,996,000,000	5,715,076,000	5,828,986,000
19101 MINISTRY OF LOCAL GOVERNMENT	242,951,000	248,464,000	253,637,000	258,271,000	263,028,000
19201 EMIGRATION AGENCY	20,395,000	21,176,000	21,892,000	22,505,000	23,137,000
19302 AGENCY FOR PROTECTION OF THE RIGHT TO FREE ACCESS TO PUBLIC INFORMATION	23,067,000	24,267,000	25,355,000	26,269,000	27,217,000

20001 COMMISSION FOR RELATIONS WITH RELIGIOUS COMMUNITIES AND GROUPS	12,254,000	12,816,000	13,327,000	13,760,000	14,207,000
21001 REAL ESTATE CADASTRE AGENCY	328,614,000	347,790,000	365,122,000	379,583,000	394,646,000
22001 STATE STATISTICAL OFFICE	340,890,000	276,443,000	290,715,000	304,477,000	315,127,000
24001 STATE ARCHIVES OF THE REPUBLIC OF NORTH MACEDONIA	213,353,000	225,239,000	235,730,000	244,514,000	253,652,000
25001 BUREAU FOR APPRAISAL	21,639,000	22,901,000	24,043,000	24,995,000	25,987,000
26001 MACEDONIAN ACADEMY OF SCIENCE AND ARTS	169,835,000	177,554,000	184,580,000	190,521,000	196,692,000
28001 REGIONAL DEVELOPMENT BUREAU	192,143,000	200,175,000	203,095,000	205,832,000	213,624,000
29010 JUDICIAL POWER	3,137,045,000	3,358,237,000	3,554,350,000	3,726,947,000	3,954,518,000
31010 PUBLIC PROSECUTOR'S OFFICE OF THE REPUBLIC OF NORTH MACEDONIA	946,813,000	990,874,000	1,030,946,000	1,064,791,000	1,099,961,000
31011 COUNCIL OF PUBLIC PROSECUTORS	38,856,000	40,837,000	42,632,000	44,138,000	45,703,000
31101 OMBUDSMAN	117,484,000	123,029,000	127,729,000	131,864,000	136,061,000

Organisational code	2027	2028	2029	2030	2031
66002 HEALTH INSURANCE FUND	57,114,000,000	59,387,000,000	61,669,000,000	63,955,000,000	66,253,000,000
66003 EMPLOYMENT SERVICE AGENCY	4,953,000,000	5,297,000,000	5,666,000,000	6,059,000,000	6,480,000,000
66004 PENSION AND DISABILITY INSURANCE FUND	157,733,000,000	161,925,000,000	166,237,000,000	170,389,000,000	174,534,000,000

Account 786 – Expenditures on the basis of loans

Organisational code	2027	2028	2029	2030	2031
07002 DIRECTORATE FOR ENFORCEMENT OF SANCTIONS	338,250,000	369,000,000	307,500,000	276,750,000	0
09001 MINISTRY OF FINANCE	464,199,000	159,824,000	49,174,000	22,674,000	0
10101 MINISTRY OF ENERGY, MINING AND MINERAL RESOURCES	30,750,000	30,750,000	61,500,000	123,000,000	123,000,000
12101 MINISTRY OF ENVIRONMENT AND PHYSICAL PLANNING	2,244,750,000	1,888,395,000	1,480,305,000	1,499,062,500	799,500,000
13001 MINISTRY OF	4,371,801,000	4,482,167,001	16,349,299,250	29,406,820,496	50,080,425,000

TRANSPORT					
MINISTRY OF AGRICULTURE, FORESTRY AND WATER ECONOMY	492,000,000	1,020,900,000	1,353,000,000	2,170,950,000	1,476,000,000
15001 MINISTRY OF SOCIAL POLICY, DEMOGRAPHICS AND YOUTH	399,750,000	455,100,000	458,175,000	727,268,004	0
16001 MINISTRY OF EDUCATION AND SCIENCE	1,014,750,000	1,107,000,000	1,044,546,750	1,085,475,000	1,356,075,000
19001 MINISTRY OF HEALTH	0	184,500,000	184,500,000	369,000,000	615,000,000