REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE

REPORT ON EXECUTION OF THE BUDGET OF THE REPUBLIC OF NORTH MACEDONIA

JANUARY – JUNE 2026

Skopje, July 2026

CONTENTS

Summary

- In the course of Q1 2026, economic activity grew by 3.01 in real terms, driven by domestic demand. Key driver was private consumption, underpinned by the higher household disposable income, with a positive contribution of both public consumption and gross investments;
- According to the Labour Force Survey (LFS), unemployment rate in Q1 2026 accounted for 11.3%, dropping by 0.1 p.p. compared to Q4 2025 and by 0.4 p.p. in relation to the same quarter in 2025;
- Throughout the first half of 2026, average inflation rate accounted for 4.1% annually, with the main drivers being the food component and the core inflation. Food prices rose by 4.9%, with energy and fuel prices picking up by 2.1% and 7.9% respectively. Core inflation amounted to 3.7%;
- Economic growth in 2026 is expected to reach 3.5% as per the macroeconomic scenario set out in the 2027 - 2031 Fiscal Strategy. Domestic demand is expected to have a significant positive contribution to growth, while the negative contribution of net export is expected to ease.
- In the period January – June 2026, total budget revenues were collected in the amount of Denar 169,944 million, accounting for 45.3% of the amount projected for 2026, increasing by 8.6% compared to the first half of 2024;
- Total budget expenditures were executed in the amount of Denar 205,887 billion in the period January – June 2026, accounting for 49.7% of the annual projections, increasing by 10,6% compared to the first half of the previous year;
- In the period January – June 2026, state budget deficit amounted to Denar 35,943 million, accounting for 3.24% of the GDP projected for 2026, while primary deficit accounted for 2.16% of the GDP projected for 2026;
- At the end of the first quarter of 2026, government debt of the Republic of North Macedonia accounted for 51.9% of GDP, while public debt accounted for 58.9% of GDP.

1. International Economic Trends[1]

Global economy continues to face heightened uncertainty, with economic outlook shaped by a combination of geopolitical risks and structural shifts related to the technological progress. Although global economic activity remains relatively resilient, growth prospects are weaker than the historical average, while the process of disinflation has decelerated as energy prices rise again and uncertainty intensifies.

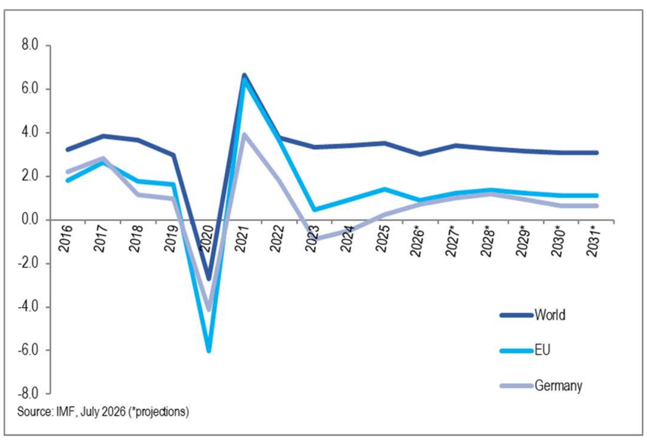
Middle East conflict presents a negative supply shock, reflecting its effects on the energy prices and the trade routes. Alongside these developments, scaled-up investments and deployment of AI tools provide a positive structural impulse, with a scope to boost productivity and potential economic growth over the medium term. According to IMF, the global economy has weathered the shock from the war better that feared, and the repercussions from the main channels of transmission: commodity prices, inflation expectations and financial conditions have been relatively limited.

According to IMF's July 2026 WEO, global growth is projected to slow down from 3.5% in 2025 to 3.0% in 2025, with downward revisions for nearly all countries compared to January 2026 WEO, prior to the outbreak of the Middle East conflict. Growth for 2026 is revised downward by 0.3 p.p. compared to January and is slower than its historical average of 3.7% (2000 - 2019).

In the euro area, growth is expected to decline from 1.4% in 2025 to 0.9% in 2026, while the forecast is revised downward by 0.2 p.p. compared to the April 2026 WEO, driven largely by the drag from higher energy prices and the weak consumer confidence.

Global inflation is expected to pause its steady decline which started at the beginning of 2024. Headline inflation is projected to rise from 4.1% in 2025 to 4.7% in 2026 before easing to 3.9% in 2027, with the increase for 2026 driven mainly by higher energy and food prices. Inflation dynamics are expected to remain uneven across countries, reflecting differences in economic fundamentals and exposure to the ongoing conflict. Inflation in the advanced economies is projected at 3.0% in 2026, revised upward by 0.2 p.p. compared to April 2026 WEO. In the euro area, inflation is expected to peak at 2.9% in 2026 before easing to 2.3% in 2027.

Chart 1. Real GDP Growth (%)



Against this background, policymakers are confronted with difficult trade-offs among containing inflation, supporting activity and protecting vulnerable households. Monetary policy remains focused on preserving price stability, while rebuilding fiscal space remains essential given elevated debt, higher borrowing costs and heightened external uncertainty.

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

The most imminent risk to baseline forecast stems from developments in the Middle East. Reescalation of geopolitical tensions would hurt growth and compound inflationary pressures through a further increase in commodity prices and extended volatility. On the other hand, reopening of the Strait of Hormuz and lower commodity prices would imply higher growth and lower inflation. Beyond downside risks from geopolitical tensions, medium-term upside risk could materialise if AI-related investments remain exceptionally strong and translate more rapidly into broad-based deployment and stronger productivity. Moreover, weaker-than-expected AI-driven productivity and profitability could pose downside risks, including financial market disruptions and macrofinancial instability.

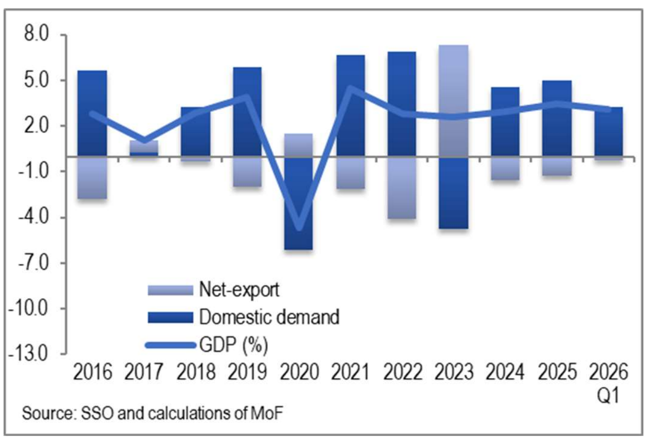
2. Macroeconomic Trends in the Country[2]

2.1. Economic Activity

In the course of Q1 2026, real gross domestic product (GDP) recorded annual growth of 3.1%, reflecting the sustained positive economic momentum and the resilience of the domestic economy amidst heightened global economic uncertainty. Economic growth was driven by domestic demand, supported by higher final consumption and gross investments. Private consumption, as the key driver of economic activity, rose by 2.6% in real terms, underpinned by increased household disposable income, stemming from higher employment, wage and pension rise and stronger crediting to households. Public consumption surged by 5.5% in real terms.

Gross investments grew by 1.5% in real terms, supported by increased capital expenditures and intensified construction activity. An additional boost to investment activity was provided by higher foreign direct investments and increased corporate lending, which grew by 46.8% and 15.0% respectively. Export of goods and service continued the positive trend from the last year, growing by 6.2% in real terms, with import surging by 5.2%. However, despite the higher export growth rate, due to the larger share of import in the total trade, net export had a negative contribution to the economic growth.

Chart 2. Economic Growth Expenditure Structure (contribution to growth, percentage points)

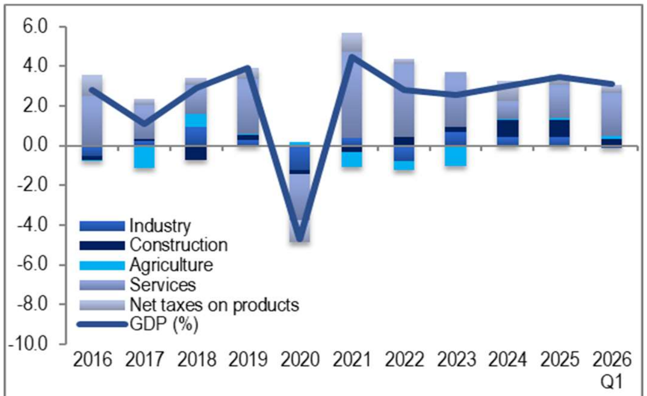


Analyzed by activity, economic growth in Q1 2026 was driven by the services sector, with a significant contribution from construction and agriculture sectors. The services sector grew by 3.6%, with all constituent activities recording positive growth rates. Professional, scientific and technical activities recorded the highest growth (6.1%), while trade, transport and hospitality made the largest contribution (0.7 p.p.) to services sector growth, increasing by 3.7%. Construction sector recorded strong growth of 7.2%, primarily driven by the increase in the value of completed construction works in the civil engineering segment, which grew by 24.5%. Specialised construction activities increased by 17.5%, with building construction recording a 30.6% decline. Growth in the

[2] Latest available data are used in the Report. Data on GDP, unemployment and balance of payments are available as of the first quarter of 2026 inclusive.

construction sector continues to be primarily driven by the implementation of capital and infrastructure projects. Agriculture sector recorded growth of 2.9%, while activity in the industrial sector dropped by 0.8%.

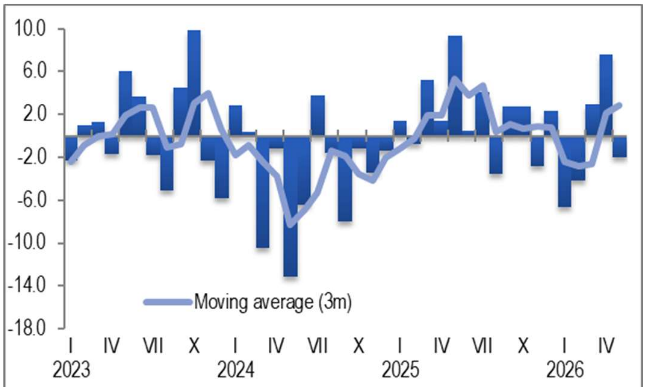
Chart 3. Economic Growth Structure According to Production Method (contribution to growth, percentage points)



Source: SSO and calculations of MoF

According to high-frequency data, industrial production recorded an annual decline of 2.0% in May 2026. On cumulative basis, industrial production dropped by 0.3% in the period January – May 2026, compared to the same period last year. The decline was mainly due to decreased production the Mining and quarrying sector (-3.6%) and the Manufacturing sector (-2.6%). Meanwhile, Electricity, gas, steam and air-conditioning supply experienced an increase of 6.1%.

Chart 4. Annual Growth of Industrial Production (%)



Source: SSO and calculations of MoF

Foreign trade sustained its positive trajectory from last year, with export of goods up by 5.6% in the period January - May 2026, mainly as a result of stronger export of chemical products (20.9%), oil (258.7%) and non-ferrous metals (160.0%). Import of goods recorded a cumulative annual growth of 5.8%, stemming from increased import of intermediary goods (8.1%) and consumer goods (1.9%). In absolute terms, import of goods recorded stronger growth than export, with the trade deficit increasing by 6.3% year-on-year,

In May 2026, number of issued building permits fell by 27.5% on annual basis, while total expected value of construction works declined by 15.2%, suggesting a slowdown in construction activity and weaker investment impulse compared to the same period last year. In the period January - May 2026, despite a 21.3% decrease in the number of issued building permits, total expected value of construction works rose by 21.4%. The growth reflected increase in the value of completed construction works in the civil engineering segment (+65.5%) and reconstruction (+58.8%), with increase in the civil engineering segment boosted by complex industrial constructions (+1,087.5%), while activity in the building construction segment dropped by 15.8%.

In May 2026, domestic trade registered a nominal year-on-year decline of 4.6%. Such decline was a result of lower turnover value in Wholesale trade (-16.9%) and Trade in motor vehicles (-6.7%), exceeding the growth registered at Retail trade (11.7%). Cumulatively, over the period January - May 2026, domestic trade recorded a decline of 7.1% in nominal terms relative to the same period last year.

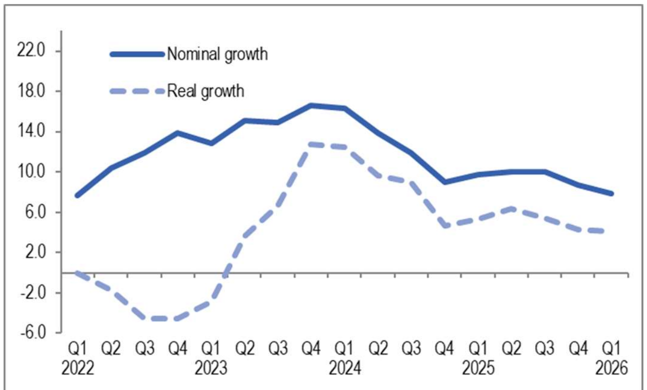
2.2. Labour Market

According to the Labour Force Survey (LFS), unemployment rate in Q1 2026 accounted for 11.3%, dropping by 0.1 p.p. compared to Q4 2025 and by 0.4 p.p. in relation to the same quarter in 2025.

Employment rate accounted for 46.5%, dropping by 0.3 p.p. compared to the Q4 2025, while increasing by 0.2 p.p. in relation to Q1 2025. Number of employed persons declined by 2,138 (0.3%) in relation to the Q4 2024, being higher by 4,975 persons (0.7%) on annual basis. Participation rate accounted for 52.5%, being an increase of 0.1 p.p. in relation to Q1 2025, declining by 0.3 p.p. compared to the Q4 2024.

Over the first four months of 2026, average net wage rose by 7.8% in nominal terms. Wage increase was recorded in all sectors, whereby most evident growth was seen in the field of Financial activities, Administrative and support service activities, Water supply, Trade, Accommodation and food service activities, etc.

Chart 5. Average Net Wage Growth (%)

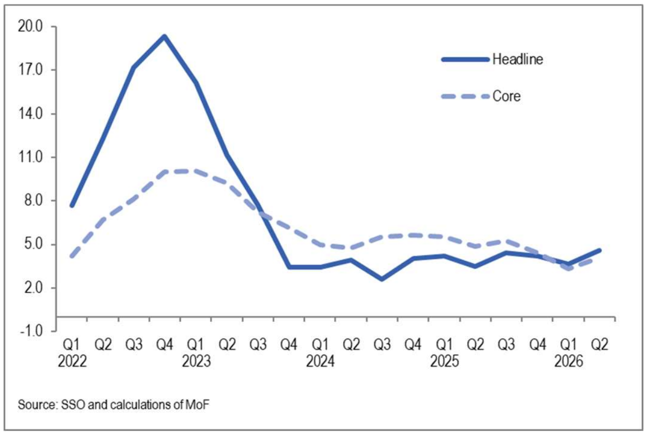


Source: State Statistics Office

2.3. Inflation and Monetary Trends

Average annual inflation rate in the first half of 2026 stood at 4.1%. 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 and the effects of the ongoing geopolitical developments Prices kept rising in April and May, slowing down in July. Cumulatively, prices in the category Food and non-alcoholic beverages surged by 5.3%, with prices of food alone increasing by 4.9%. Across the first six months, prices of energy and fuel went up by 2.1% and 7.9% respectively. Core inflation amounted to 3.7%.

Chart 6. Headline and Core Inflation (%)



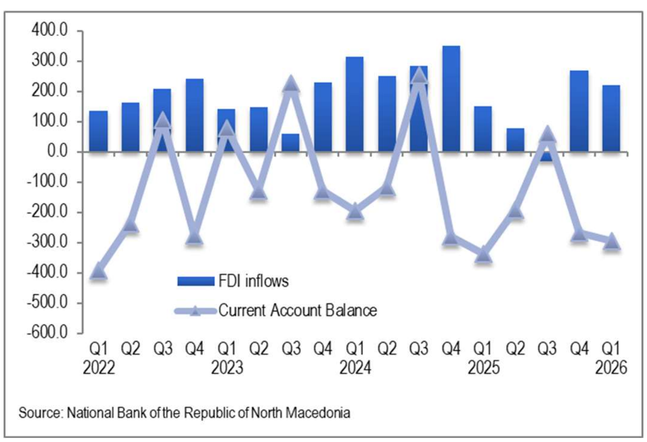
In June 2026, policy rate was increased by 0.25 p.p., i.e. from 4% to 4.25%. This is the first increase of the policy rate after six months following the introduction of the new operational monetary framework in December 2025, designating 7-day central bank bills with a 4% interest rate as the primary monetary policy instrument, replacing the previous seven-week instrument with a 5.35% interest rate. Moderate tightening of the monetary policy is a result of the economic consequences arising of the geopolitical developments (Middle East conflict), while the uncertainty about the pace of full stabilisation continues to pose risks. Moreover, at its latest meeting, CEB raised the interest rate by 0.25 p.p., an additional factor considered in domestic monetary decision making.

On annual basis, credit activity grew by 13.4% in May 2026, amid growth of both credits to enterprises and credits to households by 15.0% and 12.0% respectively, with total deposit potential growing by 8.6% on annual basis.

2.4. Balance of Payments

Balance of payments current account recorded deficit in the amount of EUR 294.9 million in Q1 2026, declining by EUR 41.6 million (12.4%) compared to the same quarter last year, mainly due to the decreased deficit on the goods account (5,6%), as well as the increased surplus on the secondary income account (by 1.0%). Reduction of the surplus on the services account (1.9%) and slight increase of the deficit on the primary income account (2.7%) had the opposite effect.

Chart 7. Current Account Balance and FDI Inflow (EUR million)



Foreign direct investments (FDIs) in the country amounted to EUR 218.6 million in Q1 2026, being higher by 46.8%, i.e. by almost EUR 70 million, in relation to the same quarter last year, primarily attributable to the increased inflow on the basis of debt instruments.

Reserve assets amounted to EUR 4.9 billion in June 2025, picking up by 5.1% on annual basis and providing for 4.7-month coverage of import of goods and services in the previous 12-month period, being at an adequate level.

2.5. 2026 Macroeconomic Outlook

Amid uncertain external environment stemming from the Middle East conflict which, through the commodities market and the inflation expectations, weighs negatively on the economic activity, real GDP growth projection has been revised downward in April to 3.5% (from 3.8% previously). Domestic demand is expected to be the key driver of growth.

Gross investments are expected to play major role in boosting the economic activity, with the real annual growth projected at 7.2%. The anticipated growth will be driven by public capital investments, aimed at modernising the infrastructure and boosting the competitiveness of the domestic economy. Capital projects in the municipalities are likewise expected to contribute, supporting more balanced regional development, alongside projects in the field of education, health and environment. 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.

Domestic demand growth will be also supported by the consumption. 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. Public consumption in 2026 is projected to increase by 2.5%.

Downward revision of global economic growth and external demand for 2026 is expected to affect both the export and the import. Under such circumstances, 4.1% growth of export of goods is projected. 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.

Favourable trends on the labour market are expected to continue throughout 2026, supported by rising investments and associated labour demand, alongside the measures and the activities aimed at job creation. Increased economic activity in 2026 will boost employment, with the number of employed persons projected to grow by 1.5%. Moreover, unemployment is expected to decline, with the unemployment rate projected to drop to 11.1% and the employment rate to reach 47.0% in 2026.

Geopolitical tensions, primarily linked to the Middle East conflict, as well as the rising oil price, are driving inflation expectations higher. Inflation is expected to reach 4.5%, gradually easing in the coming period. However, inflation outlook remains subject to considerable uncertainty. In the short run, risks are predominantly upward, amid possible further increase in energy and commodity prices.

BOP current account deficit is envisaged to widen in 2026 compared to last year, accounting for 5.0% of GDP, reflecting the expected increase of the trade deficit stemming from the higher prices of commodities, especially oil. Positive trends of FDI inflows are expected to continue in 2026 as well, having a positive effect on keeping the reserve assets at an adequate level.

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.

Table 1. Comparison of Economic Growth and Inflation Forecasts for 2026 (%)

	Economic Growth	Inflation
Ministry of Finance	3.5	4.5
IMF	3.1	4.5
World Bank	2.9	3.4
European Commission	3.2	4.4
EBRD	3.0	/
Fitch Ratings	3.0	4.4
National Bank of RNM	3.5	4.0

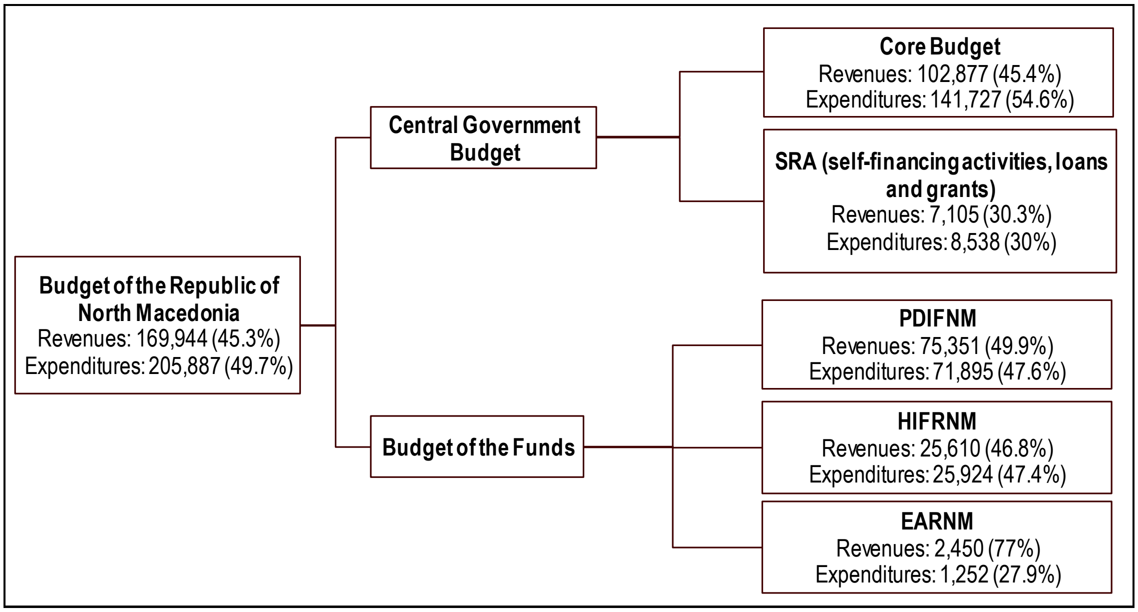
Source: MoF projections (2027 - 2031 Fiscal Strategy, April 2026), IMF (World Economic Outlook, April 2026), World Bank (Western Balkans Regular Economic Report, April 2026), European Commission (European Economic Forecast, May 2026), EBRD (Regional Economic Prospects, May 2026), Fitch Ratings (March 2026) and National Bank of RNM (Quarterly Report, April 2026).

3. Fiscal Sector

3.1 Budget of the Republic of North Macedonia

Under 2026 Budget of the Republic of North Macedonia, total revenues and total expenditures are projected in the amount of Denar 374,935 million and Denar 414,174 million respectively, i.e. deficit is projected in the amount of Denar 39,239 million (Core Budget deficit amounting to Denar 32,870 million, Funds' deficit amounting to Denar 1,315 million and SRA deficit amounting to Denar 5,054 million).

Chart 8. Scheme of the Budget of RNM - performance (Denar million) and execution rate (%) in the first half of 2026



For the January – June 2026 period, total budget revenues were collected in the amount of Denar 169,944 million, accounting for 45.3% of the projected amount for 2026, being an increase by 8.6% compared to the budget revenues collected in the same period in 2025 (Table 2). As regards total revenues, Denar 155,462 million was collected on the basis of tax revenues and social contributions, with the performance rate accounting for 46.3% of the amount projected for 2026, being a 9.2% increase in relation to the previous year. Thereby, tax revenues were collected in the total amount of Denar 96,710 million[3] (i.e. 45.2% of the amount projected for 2026 and 58.752 increase), while social contributions were collected in the amount of Denar 58,752 million (annual increase of 7.5%, i.e. 48.2% of the amount projected for 2026). As regards tax revenues, increased collection was recorded at: import duties by 8,3%, PIT by 11.7%, VAT by 16,4% and CIT by 14.5%, while collection at other tax revenues and excise duties dropped by 57.4% and 4.1% respectively.

Total budget expenditures of the Republic of North Macedonia were executed in the amount of Denar 205,887 million in the period January – July 2026, accounting for 49.7% of the annual projections, i.e. an increase of 10.6% compared to the first half of 2025. Thereby, current expenditures were executed in the amount of Denar 186,516 million, i.e. 49.9% of the amount projected for the whole year, being a 7.4% increase compared to the same period in 2025. Higher execution was recorded at expenditures related to goods and services by 25.1% and expenditures related to wages and allowances by 8.5%. Transfers, as the largest category of current expenditures, increased by 7%, driven by the high growth of social transfers by 10.1%, healthcare-related expenditures by 6.1%, block and earmarked grants by 8.2%. Capital expenditures were executed in the amount of

[3] Self-revenue accounts amounting to Denar 1,285 million are also included.

Denar 19,371 million, being higher by 53.5% compared to the same period in 2025. Execution rate of capital expenditures accounted for 48.3% in the first half compared to the initially adopted Budget.

Table 2. Budget Execution for the period January – June 2026

Budget of the Republic of North Macedonia

	Bugdet 2026	January - June 2026		
	in denar million	in denar million	yearly growth rate	execution rate
TOTAL REVENUES	**374,935**	**169,944**	**8.6%**	**45.3%**
Taxes and Contributions	**335,971**	**155,462**	**9.2%**	**46.3%**
Taxes	214,149	96,710	10.3%	45.2%
Personal Income Tax	38,797	17,539	11.7%	45.2%
Profit Tax	26,572	13,809	14.5%	52.0%
VAT	92,506	43,258	16.4%	46.8%
Excises	35,838	13,949	-4.1%	38.9%
Import Duties	16,597	7,652	8.3%	46.1%
Other Taxes	3,839	503	-57.4%	13.1%
Contributions	121,822	58,752	7.5%	48.2%
Non Tax Revenues	**29,060**	**12,456**	**11.7%**	**42.9%**
Capital Revenues	**2,510**	**575**	**20.5%**	**22.9%**
Foreign Donations	**7,394**	**1,451**	**-41.9%**	**19.6%**
Revenues from repayment of loans	**0**	**0**	**/**	**/**
TOTAL EXPENDITURES	**414,174**	**205,887**	**10.6%**	**49.7%**
Current Expenditures	**374,052**	**186,516**	**7.4%**	**49.9%**
Wages and Allowances	52,628	25,235	8.5%	47.9%
Goods and Services	28,177	13,121	25.1%	46.6%
Transfers	271,970	136,164	7.0%	50.1%
Social Transfers	209,100	103,069	10.1%	49.3%
Pensions Fund	136,420	67,470	12.1%	49.5%
Unemployment Benefits	3,576	907	21.7%	25.4%
Social Benefits	12,459	7,616	1.7%	61.1%
Health Care	53,813	25,487	6.1%	47.4%
Other Transfers	62,871	33,095	-1.7%	52.6%
Interest	21,277	11,996	-4.8%	56.4%
Capital Expenditures	**40,122**	**19,371**	**53.5%**	**48.3%**
BUDGET BALANCE	**-39,239**	**-35,943**	**20.9%**	**91.6%**

Source: Ministry of Finance

In the period January – June 2026, budget deficit amounted to Denar 35,943 million, accounting for 3.2% of 2026 projected GDP, i.e. 91.6% of the annual projections (Table 2).

Within the Budget of the Republic of North Macedonia, Core Budget deficit amounted to Denar 38,850 million, surplus of the Funds amounted to Denar 4,340 million, and deficit on the SRA amounted to Denar 1,433 million.

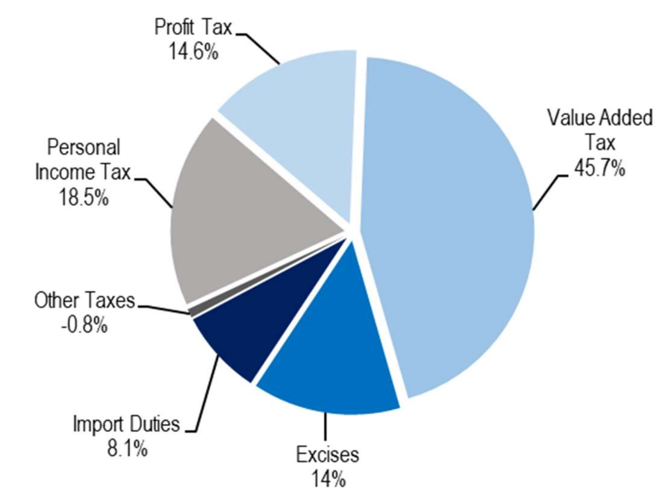
3.1.1 Execution of the Core Budget

Total Core Budget revenue collection amounted to Denar 102,877 million in the period January – June 2026, accounting for 45.4% of the total revenues projected for 2026 in the amount of Denar 226,667 million.

Tax revenues, being the highest revenue item within the total revenues, were collected in the amount of Denar 94,712 million, i.e. 45.2% of the annual projections, while non-tax and capital revenues and foreign donations were collected in the amount of Denar 8,165 million or 47.6% of the revenues projected for the whole year.

Structure of collected tax revenues showed that VAT revenues accounted for the most with Denar 43,258 million or 45.7% of the total tax revenues (Chart 7), followed by revenues on the basis of PIT collected in the amount of Denar 17,539 million, revenues on the basis of CIT in the amount of Denar 13,809 million, revenues on the basis of excise duties and import duties collected in the amount of Denar 13,236 million and Denar 7,652 million respectively, other tax revenues collected in the amount of Denar -782 million as a result of the solidarity tax refund amounting to Denar 1,267million.

Chart 9: Structure of Collected Tax Revenues, January – June 2026

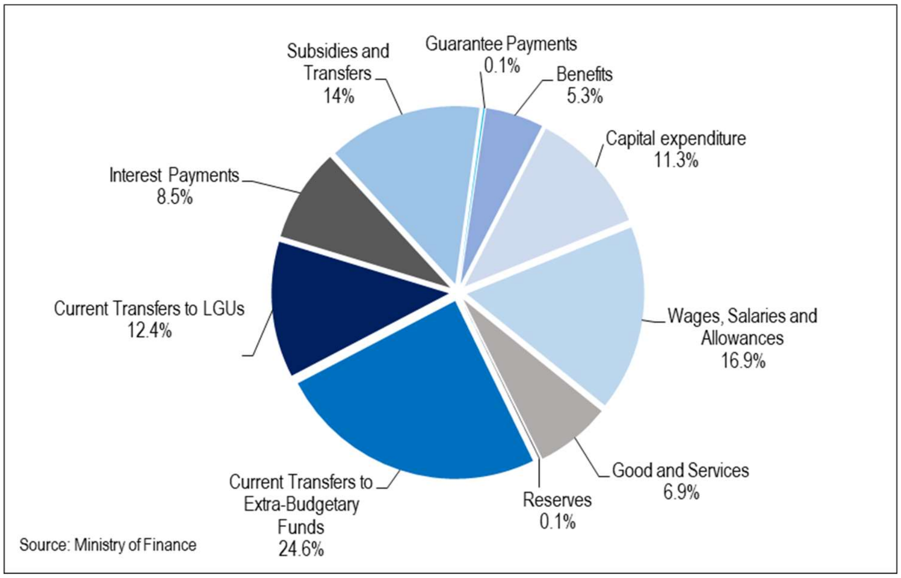


Source: Ministry of Finance

Total Core Budget expenditures were executed in the amount of Denar 141,727 million in the period January – June 2026, accounting for 54.6% of the total funds projected under the 2026 Core Budget.

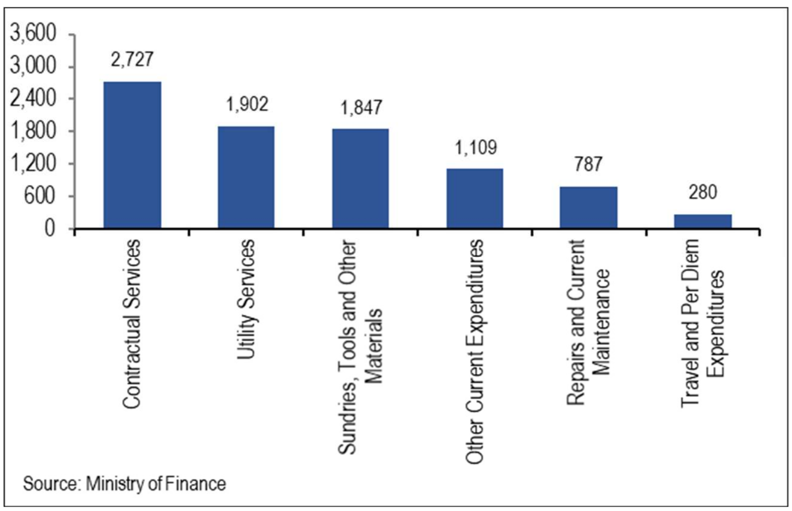
Expenditures on the basis of current transfers to extra-budgetary funds, amounting to Denar 39,318 million, accounted for the most in the structure of expenditures executed in this period, followed by expenditures on the basis of wages and allowances in the amount of Denar 23,962 million, subsidies in the amount of Denar 15,401 million, expenditures on the basis of current transfers to local government units amounting to Denar 17,506 million, payments on the basis of guarantees in the amount of Denar 161 million, capital expenditures amounting to Denar 16,020 million, interest payments in the amount of Denar 11,996 million, expenditures related to goods and services amounting to Denar 9,741 million, reserves in the amount of Denar 142 million and social benefits in the amount of Denar 7,480 million. Chart 10 shows their percentage share in the total expenditures.

Chart 10: Structure of Executed Expenditures according to Economic Classification, January – June 2026



Execution rate in the category goods and services accounted for 54%. Chart 11 shows disaggregated data on executed expenditures on the basis of goods and services.

Chart 11: Expenditures Related to Goods and Services, January – June 2026 (Denar million)



Current transfers to Budget Funds in the first half of the year accounted for 56.1% of the annual projections. Within this category, transfers to Pension and Disability Insurance Fund of North Macedonia accounted for 88.6%, while the remaining funds were transferred to the Health Insurance Fund.

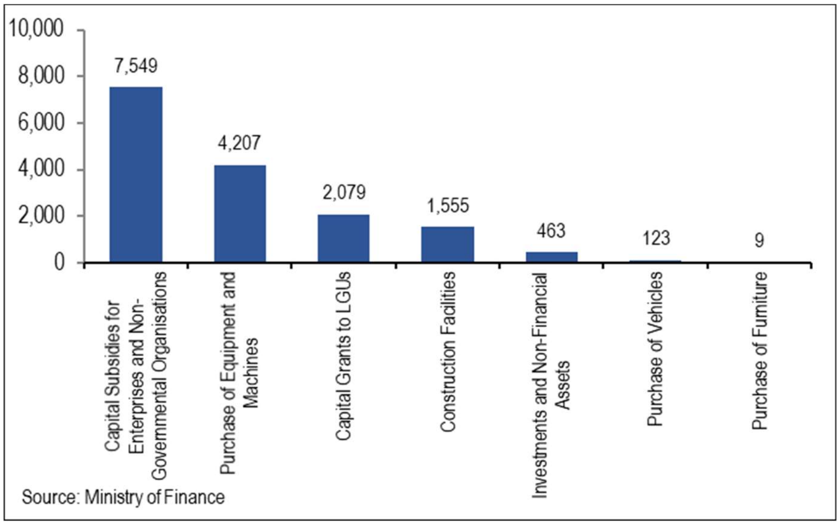
Out of the total funds projected for current transfers to LGUs in 2026, 48.6% were executed in the first half of the year. The highest amount of transfers within this category, i.e. 86.4%, was executed on the basis of block and earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

Execution rate at the "subsidies and transfers" category accounted for 57.3% in the analysed period. Most of these funds, i.e. Denar 5,659 million, was paid on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development.

In the period January – June, expenditures on the basis of social benefits accounted for 62.3% of annual projections.

During the analysed period, capital expenditures accounted for 62.9% of the funds projected for this purpose in 2026 Core Budget. Chart 12 shows disaggregated data on executed capital expenditures.

Chart 12: Capital Expenditures, January – June 2026 (Denar million)



In the analysed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 60,659 million, while interest payments amounted to Denar 11,996 million. Out of the total outflows on the basis of loan repayment, outflows on the basis of repayment of principal to domestic creditors amounted to Denar 11,644 million, while Denar 49,015 million was spent for repayment of principal to non-resident creditors. As for interest-related payments towards domestic creditors, Denar 5,417 million was paid, while Denar 6,579 million was paid to foreign creditors.

3.1.2 Funds' Budget Execution

Surplus of the Pension and Disability Insurance Fund amounted to Denar 3,456 million in the first half of the year. As of June inclusive, revenues collected and inflows performance amounted to Denar 75,351 million, accounting for 49.9% in relation to 2026 projections, while expenditures were executed in the amount of Denar 71,895 million, i.e. 47.6% of the annual projections. Out of the total revenues, revenues collected on the basis of pension and disability insurance contributions (45.4% of annual projections) amounted to Denar 38,372 million, transfers from the Core Budget amounted to Denar 34,819 million, revenues on the basis of self-employment were collected in the amount of Denar 815 million, with Denar 713 million collected on the basis of excise duties and Denar 401 million as revenues collected on the basis of paid contributions, revenues collected on the basis of contributions paid by individual farmers amounted to Denar 105 million, with Denar 100 million as other revenues of the Fund and Denar 26 million as revenues on the basis of dividend.

As regards PDIF expenditures, pension-related expenditures were executed in the amount of Denar 58,115 million or 49.7% of 2026 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2026. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 9,355 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 4,097 million. Expenditures related to wages, goods and services, physical impairment benefit and other costs amounted to Denar 328 million.

As of June 2026 inclusive, Health Insurance Fund deficit amounted to Denar 314 million, against revenues collected in the amount of Denar 25,610 million, accounting for 46.8% of the annual projections, and expenditures executed in the amount of Denar 25,924 million, accounting for 47.4% of 2026 projections.

During the analysed period, revenues collected on the basis of health insurance contributions amounted to Denar 16,626 million or 50.6% of the annual projections. Health insurance contributions for pensioners paid to the PDIF amounted to Denar 4,097 million, while health insurance contributions paid by the Employment Agency of RNM amounted to Denar 61 million. Transfers from the Core Budget amounted to Denar 4,472 million, revenues on the basis of co-payments were collected in the amount of Denar 317 million, with Denar 37 million collected on the basis of other revenues. As regards expenditures, expenditures related to primary health care amounted to Denar 21,816 million, sick leave-related costs amounted to Denar 3,130 million, expenditures for orthopedic aids were executed in the amount of Denar 343 million, while funds spent for medical treatment abroad amounted to Denar 198 million. HIF's expenditures related to wages, goods and services, as well as capital expenditures, amounted to Denar 437 million.

In the period January – June 2026, surplus of the Employment Agency of RNM amounted to Denar 1,198 million, with revenues collected in the amount of Denar 2,450 million (77% of 2026 projections) and expenditures executed in the amount of Denar 1,252 million (27.9% in relation to the annual budget). Contributions on the basis of insurance in case of unemployment are the main revenue item, with revenues thereof collected in the amount of Denar 2,433 million, accounting for 77.5% of the annual projections.

In the first half of the year, EARNM expenditures related to unemployment benefits amounted to Denar 612 million, expenditures related to employment of disabled persons amounted to Denar 79 million, expenditures related to active employment measures amounted to Denar 295 million, while expenditures related to contributions paid for pension and health insurance for unemployed amounted to Denar 61 million. Agency's expenditures related to wages, goods and services amounted to Denar 205 million.

3.1.3 Budget Execution regarding SRA of Budget Users

Pursuant to 2026 Budget of the Republic of North Macedonia, budget deficit regarding the budget users' SRA (intended for self-financing activities, loans and donations) is projected in the amount of Denar 5,054 million, while the deficit in the analysed period amounted to Denar 1,433 million.

As of June 2026 inclusive, total revenues generated on these accounts amounted to Denar 7,105 million (30.3% of 2026 projections), while expenditures were executed in the amount of Denar 8,538 million (30% of the annual budget). As regards the expenditures, current expenditures were executed in the amount of Denar 5,234 million or 37.5% of the annual projections, while capital expenditures were executed in the amount of Denar 3,304 million, accounting for 22.7% of the annual projections.

3.1.4 Budget Execution by Budget User[4]

Review of state budget expenditures and outflows for the largest budget users is shown below, the total annual budget of which accounts for 91.6% of the total budget of all budget users (Chart 13).

In the period January – June 2026, Denar 76,858 million, i.e. 65.6% of the funds projected for 2026, was spent through the organisational code Ministry of Finance – Functions of the State[5]. Principal repayment (Denar 61,364 million) accounts for the most in the total expenditures of this budget user, i.e. 79.8% of its total expenditures, with 79.4% of the expenditures projected for 2026 being executed. As for repayment of principal, 56.5% of the amount for the whole year, i.e. Denar 11,996 million, was executed, accounting for 15.6% of the total

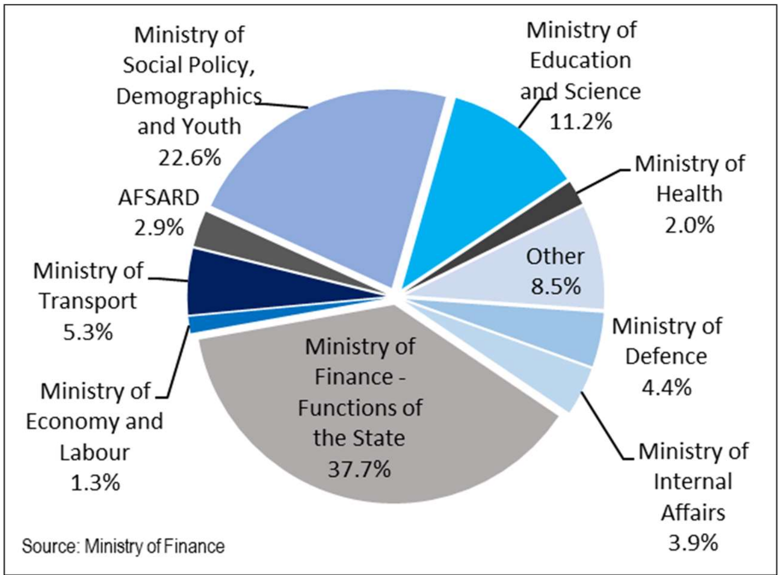
[4] Detailed data on revenues and expenditures by budget users are shown in the tables at the following link: https://finance.gov.mk/mk-MK/oblasti/izvestai-trezor. Data are preliminary and non-consolidated, also including the inflows and outflows of funds.

[5] This organisational code covers the following activities: timely servicing of liabilities of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions, payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components, etc.

expenditures. Current transfers to LGU were the third highest expenditure item, accounting for 3.1%, with Denar 2,384 million being spent therefor.

In the first half of 2026, Ministry of Social Policy, Demographics and Youth executed funds in the amount of Denar 46,026 million, accounting for 56.6% of its total budget projected for 2026. Thereby, most of the expenditures (75.4%) in this period were allocated for current transfers to the Funds, Denar 34,686 million being spent therefore or 55.6% of the funds allocated for 2026. The second highest expenditure item was the social benefits, participating with 16.2% in the total expenditures, whereby 62.5% (Denar 7,478 million) of the expenditures projected for 2026 was executed for this purpose.

Chart 13. Structure of Executed Expenditures and Outflows per Budget Users, January – June 2026



In the period January – June 2026, Ministry of Education and Science spent budget funds in the amount of Denar 22,914 million (48.9% of the projections), being higher by 11.8% compared to the previous year. Current transfers to LGUs accounted for the most of the expenditures (54.6%), Denar 12,524 million being spent therefore or 49% of total projected funds. Wages and allowances were the second highest expenditure item, accounting for 23.3%, with Denar 5,347 million, i.e. 48.8% of the total projected funds, being spent therefor.

During the first half of 2026, Ministry of Internal Affairs executed funds in the total amount of Denar 8,042 million, accounting for 48.5% of its 2026 Budget, being by 4.9% more compared to the previous year. Wages and allowances was the highest expenditure item, participating with 69.8%, Denar 5,611 million being spent therefor, accounting for 49.8% of the projected ones. Goods and services were the second highest expenditure item, accounting for 13.5%, with Denar 1,089 million, i.e. 37.4% of the annual projections, being spent therefor.

In the period January – June 2026, Agency for Financial Support in Agriculture and Rural Development executed funds in the amount of Denar 5,969 million (78.7% of the total funds projected for 2026). Subsidies and transfers were the highest expenditure item at this budget user, accounting for 94.8% of the total expenditures, with Denar 5,659 million, i.e. 82.6% of the projected funds, being spent therefor.

During the first half of 2026, Ministry of Defence executed budget funds in the amount of Denar 8,961 million, accounting for 40.4% of its total budget for this year, being lower by 13.5% compared to the previous year. Expenditures related to wages and allowances accounted for the most in the expenditures with 34.6%, with Denar 3,099 million (46.5% of the total projected funds) being spent therefor in the period January – June 2026. Capital expenditures accounted for 30% in the total expenditures. Denar 2,691 million was spent for this purpose, accounting for 29.6% of total projected expenditures.

In the first six months of 2026, Ministry of Economy and Labour executed funds in the amount of Denar 2,703 million, accounting for 49% of the annual projections. Current transfers towards Funds were the highest expenditure item, accounting for 87.7%, with Denar 2,370 million, or 66.4% of the funds projected for 2026, being spent therefor.

In the first half of the year, Ministry of Health executed budget funds in the amount of Denar 4,098 million (increasing by 36% in relation to the same period in the previous year), accounting for 53.8% of its total 2026 budget. Current transfers towards Funds accounted for the most of the total expenditures with 48%, Denar 1,966 million, i.e. 56.2% of the funds projected for 2026, being spent therefor in the period January - June 2026. Expenditures related to goods and services were the second highest expenditure item, accounting for 42.3% of the total expenditures, with Denar 1,731 million being spent therefor in the analyzed period, i.e. 52.2% of total projected funds.

In the period January – June 2026, Ministry of Transport executed funds in the amount of Denar 10,893 million, accounting for 81.4% of its total budget for 2026, being higher by 124.2% compared to the previous year. Capital expenditures accounted for the most of the total expenditures at this budget user, with Denar 10,220 million being spent in the first half of 2026 (93.8% of total expenditures), accounting for 83.7% of its annual budget for this purpose. Denar 448 million was spent for subsidies and transfers - 65.8% of the projections for the whole year, accounting for 4.1% of the total expenditures.

Draft 2026 Supplementary Budget of the Republic of North Macedonia was undergoing parliamentary procedure at the time of this Report was submitted. Macroeconomic and fiscal trends in the first half of the year, shaped by the external developments, made it necessary to modify and amend the 2026 Budget (2026 Supplementary Budget), including revising the initial projections, all to the end of providing for the spending of the budget users for servicing the highest priority obligations, as well as optimising the sources of financing by using funds from the self-financing activities. As a result of the economic developments, the budget deficit was revised upward by 0.6% from the initial projections, and set at 4.1% of GDP, above all for financing infrastructure projects.

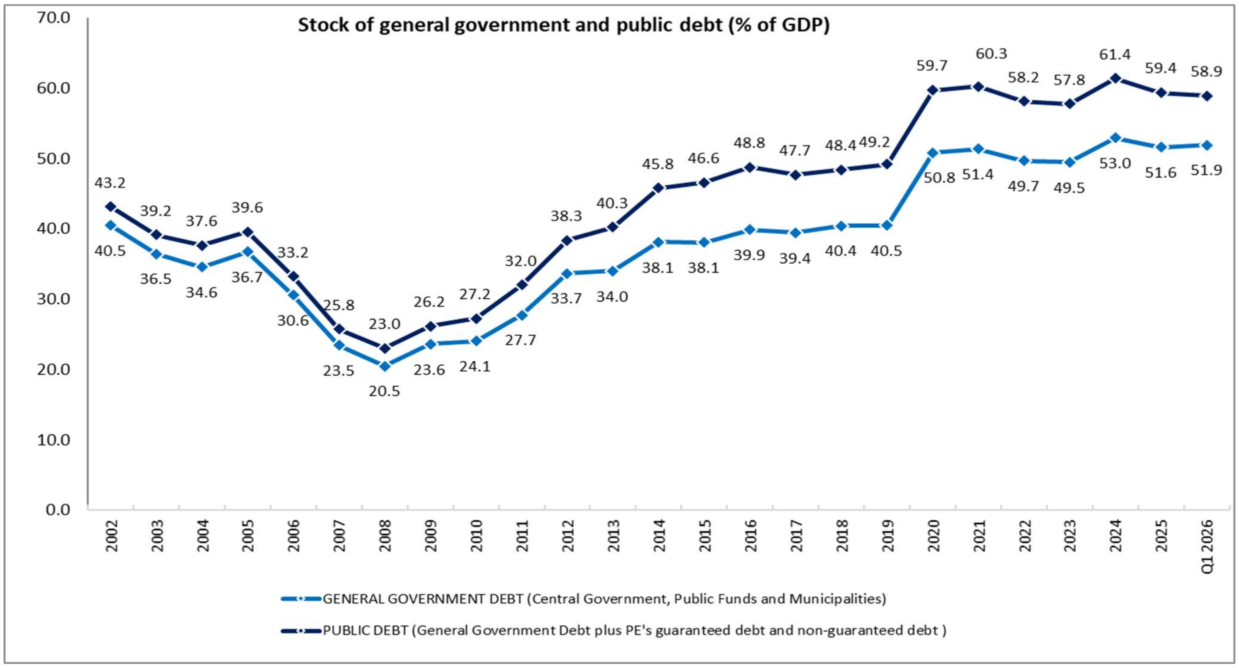
Total revenues are projected in the amount of Denar 379.5 billion, being higher by around 1.2%, i.e. being by around Denar 4.6 billion more compared to the initial 2026 projections. Total expenditures are projected in the amount of Denar 425.8 billion, being higher by around 2.8%, compared to the initial 2026 projections. Capital expenditures are projected in the amount of around Denar 46 billion, accounting for 4.1% of the projected GDP, i.e. higher by around Denar 5.8 billion or by 14.5% in relation to the initially projected 2026 Budget.

3.2. Public Debt Management

At the end of the first quarter of 2026, the government debt of the Republic of North Macedonia amounted to EUR 9,473.2 million, i.e. 51.9% of the GDP projected for 2026, while public debt[6] amounted to EUR 10,747.4 million, i.e. 58.9% of GDP (Chart 14). Thereby, compared to the end of 2025, share of government debt in GDP was higher by 0.3 p.p., while the share of public debt thereof decreased by 0.5 p.p.. Data on the debt level imply its stabilisation following the debt rise induced by the COVID-19 pandemic, remaining stable despite the subsequent unfavourable geopolitical developments.

[6] Under the amendments to the Law on Public Debt dated May 2019 (“Official Gazette“, no. 98/2019), non-guaranteed debt is included in the public debt definition.

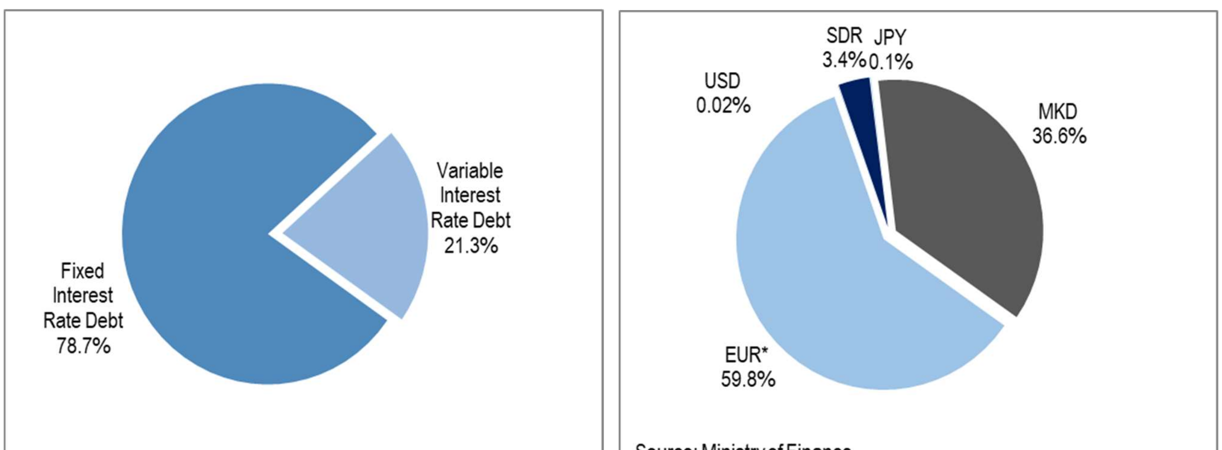
Chart 14. Stock of Government and Public Debt (% of GDP)



Source: Ministry of Finance

From the point of view of interest structure of the government debt, at the end of Q1 2026, fixed and floating interest rate ratio was 78.7:21.3 respectively (Chart 15). As regards currency composition, Denar - denominated debt accounted for 36.6% in the total government debt portfolio, while debt denominated in foreign currency accounted for 63.4%. Thereby, euro-denominated debt accounted for 59.8% of the total government debt (also including domestic securities with FX clause), Special Drawing Rights accounted for 3.4%, Japanese Yen-denominated debt accounted for 0.1%, with the US-dollar denominated debt accounting for 0.02%.

Chart 15. Interest (left) and currency structure of government debt (right) in the first quarter of 2026



Source: Ministry of Finance

Source: Ministry of Finance
(*including domestic GSs without a currency clause)

In the period January– June 2026, on the domestic market, Ministry of Finance issued, on regular basis, government securities, in line with the Calendar for Issuance of GS.

In the course of the first half of 2026, Fitch and Standard&Poor's Credit Rating Agencies revised the country's credit rating on regular basis.

In January 2026, Standard&Poor's Credit Rating Agency affirmed the country's 'BB-'credit rating with a stable outlook. It sends a strong signal of stability of the macroeconomic policy, the moderate level of public debt and ability of the country to timely and consistently service its financial liabilities, as well as to ensure continuity in pursuing the economic policies, even amid heightened global economic uncertainty. As noted in S&P Report, growth is picking up, driven by scaled-up public investments linked to large infrastructure projects, as well as rising household incomes supported by higher wages and pensions. Economic growth is expected to reach around 3.5% in 2026, moderating and stabilising at about 3% over the medium term, complemented by a gradual recovery in private investments and external demand.

The Agency noted Government's commitment to accelerating economic growth, anchored in large-scale infrastructure projects, as well as the commitments to strengthen institutional capacities, enhance the business environment, improve tax collection efficiency and reduce informality. As stated in the Report, policy measures are focused on supporting domestic demand through increase in pensions and wages, as well as sustained fiscal consolidation.

Under the adopted 2026 Budget, fiscal deficit is expected to moderately narrow, averaging 3.5% of GDP, alongside scaled-up capital investments.

Revenues are expected to outpace expenditures, supported by improved collection and strong economic activity, while expenditure side remains focused on capital investments in infrastructure, as well as wages, pensions and social transfers.

Fiscal consolidation is occurring, but debt levels remain higher than before the pandemic. S&P noted that downside risks, related to the external environment, in particular the economic trends in the European Union, are broadly balanced by the resilience of the domestic economy, the stability of the financial system and the prudent monetary policy.

Further progress in implementing institutional and structural reforms, in particular the rule of law and the anti-corruption efforts, could additionally strengthen the country's economic and fiscal position and contribute to an upgrade in the ratings.

• **In April 2026**, Fitch Ratings affirmed North Macedonia's BB+ rating with a stable outlook, reflecting strong confidence in the country's economic policies. In its Report, Fitch highlight that credible and consistent macroeconomic policies, longstanding de facto exchange rate peg to the euro, as well as more favourable governance indicators than peer medians, remain key factors in maintaining stability. Moreover, commitment to the EU accession process is assessed as a reform anchor over the medium term. Real GDP growth accelerated to 3.5% in 2025, driven by domestic consumption and investments, which grew by 8%. Despite the global challenges, Fitch expect for the economy to maintain stable growth of 3% in 2026, rebounding to 3.4% in 2027, positioning the country on the sustainable growth trajectory.

Fiscal policy remains to be prudently structured and managed. Budget deficit amounted to 4% of GDP in 2025, in line with the target, moderating to 3.4% by 2027. Public debt is maintained at a moderate and controlled level, significantly below the European standards, thereby further affirming the fiscal stability. Fitch note the exposure to external risks, in particular as regards the energy markets, but conclude that such shocks are unlikely to result in long-term disruptions to the economy. Inflation is showing signs of stabilisation, with projections indicating a moderate level in the coming period and continued stabilisation through 2027. Affirmed BB+ credit rating with a stable outlook signals to the international financial markets and the investors that Macedonia retains macroeconomic stability and pursues a predictable economic policy even amid global uncertainty.