North Macedonia

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This report does not constitute a rating action.

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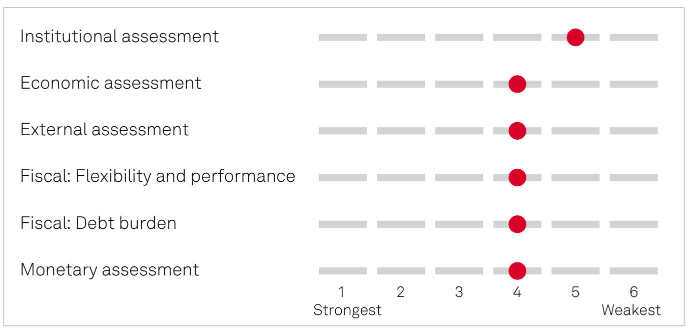
Ratings Score Snapshot



Sovereign credit rating
Foreign currency
BB-/Stable/B
Local currency
BB-/Stable/B

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Growth is picking up and remains a priority for the government.	Public debt has increased in recent years, reducing North Macedonia's ability to withstand future shocks.
S&P Global Ratings expects GDP growth to accelerate slightly to 3.0% in 2025 and remain at about this level in the long term.	Despite a revision, the budget deficit target remains at 4% of GDP in 2025.
The local elections in October are likely to serve as a test of confidence in North Macedonia's ruling coalition.	The government has adopted a new fiscal strategy, but challenges remain.
North Macedonia's EU accession bid is likely to remain stalled due to ongoing disputes with Bulgaria.	We anticipate that the current account deficit will stay at about 2%-3% of GDP during 2025-2028, consistent with the trend of the previous decade.

North Macedonia's EU accession process remains on hold due to a disagreement over the "French proposal," which includes a requirement to amend the constitution to recognize a Bulgarian minority. The government maintains its commitment to EU integration but has expressed reservations about the timing of the amendment. The EU and Bulgaria consider the constitutional change a necessary step before moving forward, resulting in a continued impasse in the negotiations. Nevertheless, we continue to view the EU accession process as an important anchor for advancing structural reforms over the medium term.

North Macedonia's government is prioritizing institutional reform, anti-corruption measures, and the rule of law for EU integration, alongside an ambitious 5% medium-term economic growth target driven by infrastructure and private investment. However, we believe fiscal consolidation is not a core priority, with public spending remaining expansionary amid rising debt. We anticipate further spending if growth falters, likely delaying fiscal consolidation even further.

Outlook

The stable outlook reflects our view that North Macedonia's economic challenges, such as weak growth among its trading partners, are balanced by the country's moderate government debt levels and controlled interest expenses.

Downside scenario

We could lower the ratings if North Macedonia's fiscal or external metrics worsen considerably, or if its foreign currency reserves are depleted, which would pressure the North Macedonian denar's de facto euro peg. Significant budget deficits exceeding our medium-term projections, particularly if coupled with a rapid increase in government debt, could lead to lower ratings.

Upside scenario

We could raise our ratings on North Macedonia if there is an improvement in the institutional framework through structural reforms. A sustained reduction in net general government debt and strong economic growth, indicating better fiscal performance, could also support an upgrade.

Rationale

Institutional and economic profile: Local elections will act as a mid-term test for the ruling coalition

We expect GDP growth to accelerate moderately to 3% in 2025, supported primarily by household consumption, driven by rising public-sector wages and pensions, and a pickup in investment activity, particularly in infrastructure. Key infrastructure projects include the Corridor 8/10d project. However, downside risks remain elevated, notably due to uncertainty in the economic outlook for the EU--North Macedonia's main trading partner--and persistent challenges in executing public investment plans. By 2028, we project growth will stabilize near 3%, underpinned by a gradual recovery in external demand and strengthening investment momentum.

Parliamentary elections in May 2024 marked a decisive political shift in North Macedonia, with Hristijan Mickoski's VMRO-DPMNE returning to power after over a decade in opposition. The party secured a broad governing majority through a coalition with the Albanian alliance VLEN/VREDI and the newly formed ZNAM party--an SDSM offshoot--controlling 77 out of 120 seats in parliament. Mickoski's appointment as prime minister ushers in a more nationalist-leaning administration, with potential implications for the country's foreign policy posture and EU accession trajectory. The election outcome reflected deepening public frustration over perceived stagnation in EU integration, elevated inflation, and institutional corruption.

One year after the May 2024 elections, the Alliance for Albanians (AA), led by Arben Taravari, left the ruling coalition in mid-May 2025, citing unmet expectations around ethnic representation and the EU integration progress. The departure led to the resignation of two AA members of parliament (MPs) and the replacement of AA-affiliated cabinet ministers. Despite this, the coalition--comprising VMRO-DPMNE, VLEN, ZNAM, and other smaller allies--retains a safe majority of about 75 MPs in the 120-member parliament. Notably, three of the four main Albanian political groupings remain part of the government, preserving an ethnic coalition balance. In our view, the risk of snap elections remains low, given the coalition's parliamentary control. However, the upcoming October 2025 local elections will serve as a key barometer of public confidence in the government.

On the policymaking front, the government continues to emphasize institutional reform, anti-corruption efforts, and stronger rule of law--key preconditions for EU integration. Economic growth remains a core priority, with the government targeting growth of up to 5% over the medium term, underpinned by ambitious infrastructure initiatives such as the Corridor VIII/10d project, and increased private-sector investment. The administration has also pledged improvements in tax collection efficiency and further increases in pensions and public-sector wages to support domestic demand. However, in our assessment, fiscal consolidation doesn't appear to be a priority, as public spending remains expansionary, despite elevated and rising debt levels. In our view, there is a strong likelihood the government will resort to additional spending should growth continue to underperform, further delaying fiscal consolidation.

The new government has reaffirmed its commitment to EU integration but faces significant challenges in navigating the contentious French proposal, which underpins North Macedonia's accession framework. The proposal requires the government to amend the constitution to recognize a Bulgarian minority, a concession agreed to by the previous government and that has become a focal point of political and public debate. The current administration, led by Prime Minister Mickoski, argues that such changes pose a threat to national identity and sovereignty, proposing instead to delay their implementation until full EU membership is secured or to redefine the terms of the proposal to decouple constitutional changes from early accession milestones. This position has encountered strong resistance from both the EU and Bulgaria, which continue to view the explicit constitutional recognition of the Bulgarian minority as a non-negotiable and legally binding prerequisite for advancing accession talks. As a result, progress on North Macedonia's EU accession remains gradual, with the constitutional amendment process unlikely to advance in the near term, absent broader political consensus.

Flexibility and performance profile: Rising fiscal risks limit the country's capacity to handle future shocks

Parliament has reaffirmed the 2025 budget deficit target at 4% of GDP, despite revised projections that raise both revenue and expenditure by approximately 1%, compared to the original budget. The fiscal adjustment is underpinned by a one-off €50 million windfall from the central bank, enabled by recent amendments to the central bank law mandating the transfer of 85% of its annual profit to the state budget. On the expenditure side, the additional fiscal space has been allocated toward higher pensions and public wages, alongside increases in current spending and capital outlays. While the nominal deficit target remains unchanged, the revision signals a shift toward structurally higher recurrent expenditure, potentially impacting medium-term fiscal consolidation if temporary revenue is not sustained.

Fiscal performance through May of this year indicates a 9% year-on-year increase in revenue, driven primarily by stronger personal income tax collections, higher excise receipts, as well as growth in non-tax revenue and foreign grants. On the expenditure side, spending rose by 5% over the same period, reflecting upward pressures from public sector wages, current expenditure, and social transfers. However, this was partially offset by a sharp underexecution of capital spending, which fell by 14% year on year, with only 22.5% of the planned capital budget implemented, pointing to continued challenges in public investment execution.

The fiscal outlook remains subject to downside risks. Our projection sees the general government deficit widening modestly to 4.3% of GDP in 2025, reflecting weaker-than-expected GDP growth and the potential for cost overruns on large infrastructure projects. Should growth disappoint more markedly, the government may introduce additional fiscal support measures. Financing needs are expected to be met through a mix of domestic and external sources. A key development on this front is the €1 billion bilateral loan secured from Hungary at a concessional 3.25% rate in 2024. Half of the loan was used to refinance the €500 million Eurobond that matured in January, while the remaining funds are intended to support credit lines and capital spending at the municipal and private-sector levels. A Eurobond maturity of €700 million in mid-2026 presents a key refinancing test, which the authorities intend to meet via renewed access to international markets.

While the government's updated fiscal strategy outlines a path toward gradual consolidation, we expect the fiscal deficit to remain elevated, averaging 3.7% of GDP over 2025–2028. As a result, we project that net general government debt will climb to about 61% of GDP by 2028 from 52% in 2024. The slow pace of post-pandemic consolidation marks a clear departure from North Macedonia's earlier track record of prudent fiscal management. Given this trajectory, compliance with the Organic Budget Law (which mirrors the EU's Maastricht criteria) appears unlikely in the near term. This highlights persistent challenges in anchoring fiscal policy within a credible medium-term framework, particularly as the country advances its EU integration agenda.

Fiscal vulnerabilities are compounded by the likelihood of additional expenditure pressures, particularly if growth underperforms and the government turns to countercyclical stimulus. Structural weaknesses also persist, including a large informal sector that erodes the tax base and heightens revenue volatility. Risks are further elevated by the potential for cost overruns in major infrastructure projects, a recurring issue. A key source of contingent liabilities is the rising stock of public sector payment arrears--estimated at 4%–5% of GDP in 2024--mainly linked to local utilities, the health system, and state-owned enterprises. While authorities have reiterated their intention to reduce these arrears, the 2025 budget lacks a credible plan or timeline for resolution. Given limited progress to date and weak transparency, we assume the central government will ultimately absorb a portion of these obligations. We therefore include approximately 2% of GDP in private sector-related arrears in our projected government debt trajectory.

Roughly two-thirds of government debt is denominated in foreign currency, exposing the public finances to exchange rate risks, particularly in the event of stress on the currency peg. Nonetheless, despite tighter global financial conditions, debt servicing remains relatively contained. We project interest payments to average about 5% of government revenue over the next four years--a level that is moderate by emerging market standards and suggests limited short-term refinancing stress under the baseline scenario.

We expect the current account deficit will widen to 2.6% of GDP in 2025, up from approximately 2.2% in 2024, driven by a rebound in domestic demand and sluggish export performance. We project the current account deficit will remain about 2%–3% of GDP, likely financed through a combination of net foreign direct investment (FDI) inflows--amounting to a record 7% of GDP in 2024--and external government borrowing.

Inflation reached 4.5% year on year--its highest level since February. Inflation shot up in June, mainly due to a sharp increase in food prices; the authorities lifted broad food price controls on basic items as of June 1, 2025, removing earlier restrictions on frozen or capped retail prices. Moreover, passenger air transport--one of the most volatile components of CPI--accounted for roughly half of the year-on-year inflation acceleration in June, largely due to a seasonal timing shift versus the same period last year. We expect price levels to remain elevated this year, with inflation set to average 3.6% due to strong wage growth and persistent price pressures from items such as food. The trajectory of inflation, coupled with the spread between North Macedonia's policy rate and the ECB rate--reflecting the Macedonian denar's de-facto peg to the euro--provides the NBRNM with some scope for multiple policy rate cuts. However, in our view, the NBRNM will remain cautious, balancing potential rate adjustments against recent inflationary pressures and fiscal stimulus, which could complicate its efforts to anchor inflation expectations.

In early 2025, the government enacted amendments to the Law of the NBRNM that altered the framework for profit retention and capital adequacy without consulting the central bank. Specifically, the reforms replaced the existing dynamic profit retention rule, whereby retained earnings were calibrated against the size of the NBRNM's monetary liabilities using a static capital target. This change means that once the central bank reaches a fixed core capital threshold, excess profits must be transferred to the state budget, regardless of changes in the risk environment or the expansion of monetary liabilities. These amendments risk weakening the financial autonomy and shock absorption capacity of the central bank, particularly in a context of external uncertainty and a fixed exchange rate regime.

Nevertheless, despite facing multiple challenges in recent years, the banking sector in North Macedonia remains stable and profitable. Its resilience has been further strengthened by recent adjustments to macroprudential rules aimed at containing systemic risks. In 2024, nonperforming loans were low at 2.6% of total loans, and the capital adequacy ratio stood at a stable 18.8% in the first quarter of 2025. Thus, the risk of contingent liabilities remains low for now.

North Macedonia--Selected Indicators

	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Economic indicators (%)										
Nominal GDP (bil. MKD)	692.7	669.3	729.4	816.1	897.7	948.9	999.9	1,054.6	1,112.3	1,173.1
Nominal GDP (bil. $)	12.6	12.4	14.0	13.9	15.8	16.7	17.9	19.2	21.0	22.8
GDP per capita (000s $)	6.1	6.0	6.8	7.6	8.6	9.1	9.8	10.5	11.5	12.6
Real GDP growth	3.9	(4.7)	4.5	2.8	2.1	2.8	3.0	3.1	3.0	3.1
Real GDP per capita growth	3.8	(4.7)	4.9	15.7	2.5	3.0	3.1	3.2	3.1	3.2
Real investment growth	9.5	(15.1)	2.9	11.9	(9.6)	8.9	9.0	5.5	4.3	4.3
Investment/GDP	47.4	38.2	40.9	47.9	34.5	32.9	30.0	30.6	31.1	31.6
Savings/GDP	44.4	35.3	38.2	41.7	34.8	30.7	27.4	27.8	28.2	28.9
Exports/GDP	62.4	57.8	65.4	72.8	67.8	62.7	62.0	62.6	63.3	64.2
Real exports growth	8.9	(10.9)	14.3	10.6	(0.6)	(3.8)	1.2	3.1	3.3	3.3
Unemployment rate	17.3	16.4	15.7	14.4	13.1	11.9	11.5	11.3	11.0	11.0
External indicators (%)										
Current account balance/GDP	(3.0)	(2.9)	(2.7)	(6.2)	0.4	(2.2)	(2.6)	(2.8)	(2.9)	(2.7)
Current account balance/CARs	(3.7)	(3.9)	(3.1)	(6.7)	0.4	(2.8)	(3.1)	(3.4)	(3.5)	(3.3)
CARs/GDP	80.4	74.3	85.2	93.6	88.8	81.5	81.0	81.5	81.6	81.8

North Macedonia--Selected Indicators

Trade balance/GDP	(17.3)	(16.7)	(19.7)	(26.3)	(18.1)	(20.1)	(22.3)	(22.6)	(22.7)	(22.9)
Net FDI/GDP	3.2	1.4	3.2	4.9	3.4	7.0	3.5	3.5	3.5	3.5
Net portfolio equity inflow/GDP	(0.0)	(0.5)	(0.4)	(0.7)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Gross external financing needs/CARs plus usable reserves	111.7	113.8	112.7	115.4	111.7	114.6	111.3	113.3	114.1	114.5
Narrow net external debt/CARs	23.0	33.4	26.2	26.9	23.7	22.3	26.1	25.7	24.1	23.0
Narrow net external debt/CAPs	22.2	32.1	25.4	25.2	23.8	21.7	25.3	24.8	23.2	22.3
Net external liabilities/CARs	71.3	92.2	68.8	66.5	65.6	67.3	72.2	72.7	72.0	71.0
Net external liabilities/CAPs	68.7	88.8	66.7	62.3	65.8	65.5	70.0	70.3	69.6	68.8
Short-term external debt by remaining maturity/CARs	20.7	24.0	20.5	19.9	22.4	24.3	21.3	21.6	21.0	20.1
Usable reserves/CAPs (months)	1.3	1.4	1.1	1.1	1.1	1.3	1.4	1.2	1.1	0.9
Usable reserves (Mil. $)	1,137.3	1,153.1	1,267.0	1,297.2	1,473.5	1,717.5	1,613.3	1,556.2	1,447.9	1,362.1
Fiscal indicators (general government %)										
Balance/GDP	(2.1)	(8.2)	(5.4)	(4.3)	(4.4)	(4.6)	(4.3)	(3.9)	(3.5)	(3.2)
Change in net debt/GDP	3.5	7.5	5.3	4.6	4.6	4.5	8.6	4.3	3.9	3.6
Primary balance/GDP	(1.0)	(7.0)	(4.1)	(3.2)	(2.9)	(2.7)	(2.4)	(2.0)	(1.6)	(1.4)
Revenue/GDP	31.4	29.9	32.0	31.6	32.7	33.9	32.0	32.0	32.0	32.0
Expenditures/GDP	33.5	38.1	37.4	35.9	37.0	38.5	36.3	35.9	35.5	35.2
Interest/revenues	3.8	4.0	3.9	3.6	4.4	5.6	5.9	5.9	5.8	5.7
Debt/GDP	46.5	57.0	57.8	55.4	55.0	58.9	62.5	63.6	64.2	64.4
Debt/revenues	148.3	190.5	180.4	175.5	168.6	173.8	195.4	198.7	200.5	201.3
Net debt/GDP	41.0	50.0	51.1	50.3	50.3	52.1	58.0	59.3	60.1	60.6
Liquid assets/GDP	5.5	7.1	6.6	5.1	4.7	6.8	4.5	4.3	4.0	3.8
Monetary indicators (%)										
CPI growth	0.8	1.2	3.2	14.2	9.4	3.5	3.6	2.4	2.2	2.2
GDP deflator growth	0.9	1.4	4.3	8.9	7.8	2.9	2.3	2.3	2.4	2.3
Exchange rate, year-end (MKD/$)	55.0	50.2	54.4	57.7	55.7	58.9	56.0	54.2	52.3	51.1
Banks' claims on resident non-gov't sector growth	6.4	4.8	8.3	9.3	5.2	11.0	6.5	7.0	7.0	7.0
Banks' claims on resident non-gov't sector/GDP	49.7	53.9	53.5	52.3	50.0	52.5	53.1	53.9	54.6	55.4
Foreign currency share of claims by banks on residents	41.2	41.2	40.3	42.2	41.7	38.2	N/A	N/A	N/A	N/A

North Macedonia--Selected Indicators

Foreign currency share of residents' bank deposits	38.4	39.7	42.8	44.4	42.9	40.5	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(1.7)	1.9	1.1	2.3	4.9	0.5	N/A	N/A	N/A	N/A

Sources: National Bank of the Republic of North Macedonia,International Monetary Fund, Eurostat, State Statistical Office of Republic of North Macedonia (Economic Indicators); National Bank of the Republic of North Macedonia,International Monetary Fund (Monetary Indicators); Ministry of Finance, National Bank of the Republic of North Macedonia (Fiscal and Debt Indicators); National Bank of the Republic of North Macedonia (External Indicators).

Adjustments: We adjust usable reserves by subtracting monetary base and required bank reserves on resident foreign-currency deposits from the reported international reserves. Government debt is adjusted by including the debt of Public Enterprise for State Roads.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. MKD--Macedonian denar. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Country--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	5	Future policy responses are difficult to predict. Transparency is impaired owing to high levels of perceived corruption.
Economic assessment	4	Based on GDP per capita (in U.S. dollars) and growth trends as per the Selected Indicators table.
External assessment	4	Based on narrow net external debt and gross external financing needs/(current account receipts (plus usable reserves) as per the Selected Indicators table.
		There is a risk of a marked deterioration in the cost of financing, given elevated rates and sizeable upcoming Eurobond redemptions in the next few years.
Fiscal assessment: flexibility and performance	4	Based on the change in net general government debt (percentage of GDP) as per the Selected Indicators table.
Fiscal assessment: debt burden	4	Based on net general government debt (percentage of GDP) and general government interest expenditures (percentage of general government revenue) as per the Selected Indicators table.
		75% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The North Macedonian denar is pegged to the euro. Furthermore, the National Bank of the Republic of North Macedonia benefits from a degree of operational independence; it uses market-based monetary instruments and has some ability to act as a lender of last resort for the financial system. Annual consumer price index is generally low and in line with that of peers.
Indicative rating	bb-	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	None.
Final rating		
Foreign currency	BB-	
Notches of uplift	0	Default risks do not apply differently to foreign and local-currency debt.
Local currency	BB-	

Country--Rating Component Scores

Key rating factors	Score	Explanation

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Jan. 13, 2025
- Sovereign Ratings History, Jan. 13, 2025
- Sovereign Ratings Score Snapshot, Jan. 7, 2025
- Global Sovereign Rating Trends 2025: Geopolitical Risk Is The Biggest Threat To Credit Quality, Dec. 18, 2024
- Sovereign Risk Indicators, Dec. 9, 2024. A free interactive version is available at http://www.spratings.com/sri
- 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024

Ratings Detail (as of July 24, 2025)*		
North Macedonia		
Sovereign Credit Rating		BB-/Stable/B
Transfer & Convertibility Assessment		BB
Senior Unsecured		BB-
Sovereign Credit Ratings History		
24-May-2013	*Foreign Currency*	BB-/Stable/B
21-Sep-2009		BB/Stable/B
30-Apr-2009		BB/Negative/B
24-May-2013	*Local Currency*	BB-/Stable/B
24-Aug-2011		BB/Stable/B
21-Sep-2009		BB+/Stable/B

Ratings Detail (as of July 24, 2025)*

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.