Republic of North Macedonia

Ministry of Finance

ECONOMIC REFORM PROGRAMME

2026-2028

January 2026

TABLE OF CONTENTS

1. Overall policy framework and objectives

Economic Reform Programme (ERP) is part of the European Semester Light process for candidate countries, inspired by the European Semester for EU Member States. The process, introduced with the Enlargement Strategy in 2013, aims to improve economic governance and the coordination of economic policies in order to ensure long-term economic growth and competitiveness, in line with the requirements of the Copenhagen criteria for EU membership. ERP is the fundamental document for the Economic and Financial Dialogue between the Western Balkan countries and the EU, within which Joint Conclusions are adopted, containing recommendations on priority reforms related to fiscal policies, as well as structural reforms to be incorporated into national budgets. The implementation of these reforms is regularly monitored and assessed by the EU on an annual basis.

According to the EU Guidance Note for the 2026–2028 Economic Reform Programme (July 2025), as it was in the previous year, the Western Balkan countries shall not prepare the structural reform section of the ERP and the corresponding annexes, given that the Western Balkan countries have prepared a Reform Agenda (RA) for the period 2024–2027, with concrete steps for the implementation of reforms within the framework of the relevant EU Reform and Growth Facility. In accordance with the ERP Guidance Note for 2026–2028, Western Balkan countries are required, in Chapter 5A of the Programme, to provide a brief overview of selected reforms from the Reform Agenda, focusing on their impact on the economy.

During the period covered by the Economic Reform Programme 2026-2028, and in line with the Working Programme of the Government of the Republic of North Macedonia, the main economic objective is to generate investment-driven economic growth, increased competitiveness of domestic companies, and higher exports. In the medium term, under conditions of expected stabilization of geopolitical and trade tensions, the key assumptions of the macroeconomic scenario include increased strategic investments in infrastructure and energy, financial support for investment activity of domestic manufacturing companies aimed at enhancing innovation, competitiveness, and productivity, as well as reforms in the business environment and tax policy. In addition, further development of human capital, education reforms, strengthening of the rule of law, reduction of the shadow economy and unfair competition, and increased digitalization are expected. All of these factors are expected to contribute to higher medium-term economic growth, which is projected to average 4.1% over the period 2026–2030. Gross investment will be one of the main drivers of economic growth, supported by intensified implementation of large state-financed infrastructure projects; major investments in the energy sector; investments in education, healthcare, and the environment; support to municipalities for the implementation of capital investments; increased investment activity by domestic enterprises; and higher inflows of foreign direct investment. During the same period, the focus will also be on gradual fiscal consolidation, with the budget deficit expected to decline to 2.8% by 2030.

With respect to price pressures in the economy, inflation is expected to decline in the coming period, reaching 2.5% in 2026 and 2.0% thereafter. As for the balance of payments, a gradual reduction of the current account deficit is projected over the next three years, reaching around 2.6% of GDP in 2028, alongside a gradual narrowing of the trade deficit. In September 2024, amid a significant slowdown in the pace of domestic inflation and favourable foreign exchange market conditions, the National Bank began a cautious normalization of monetary policy, reducing the policy interest rate in several steps from 6.3% to 5.35% by February 2025. In the subsequent period, up to and including October, amid persistent inflation and the continued presence of risks stemming from the global and domestic environment, the policy interest rate remained unchanged.

The following chapters of the Programme present the status of implementation of the recommendations from the Joint Conclusions of the Economic and Financial Dialogue with the EU from May 2025, the medium-term macro-fiscal policy framework, as well as an assessment of the economic impact of selected measures from the Reform Agenda 2024–2027.

The Economic Reform Programme 2026–2028 was adopted by the Government on January 13, 2026.

2. Implementation of the policy guidance

3. Joint conclusions - Policy guidance with recommendations	Activity and stage of implementation
Policy Guidance 1:	
P1: Implement prudent fiscal policy by adopting concrete consolidation measures, by controlling wage and pensions spending to ensure that their share of GDP does not exceed 2024 levels, and by saving unused allocations from capital expenditure to bring down the deficit and create fiscal space.	During the next period the fiscal policy will be driven from consolidation measures on both the revenue and expenditure sides, including: • Improved collection of budget revenues through the formalization of the informal economy, digitalization of processes via the introduction of e-invoicing and other reform initiatives. • Consolidation and rationalization of budget expenditures, based on clearly defined criteria and enhanced monitoring of public spending. • Improved efficiency and effectiveness of public expenditures, through the introduction of performance indicators for measuring the success of budgetary policies; and • Strategic investment planning to ensure realistic capital expenditure projections and timely project implementation. - As a share of GDP, wages remain at approximately the same level, with certain funds earmarked for wage adjustments in line with collective agreements across various sectors. New hiring will primarily occur through internal mobility, with staff transferred from other public institutions. Government measures aimed at rationalizing and optimizing the public sector are expected to improve efficiency and enhance the professional and quality performance of duties. - According to the new Law on Pension and Disability Insurance the method of calculating the pension returns to the previous method of indexation. Through this calculating method the fiscal effect will be lower than previous.
P2: Strengthen revenue collection by developing proposals for further reductions in tax expenditure; and by enhancing the operational capacities of the tax administration.	Regarding strengthening the revenue collection by developing proposals for further reductions in tax expenditures, technical assistance from the International Monetary Fund has been provided to enhance institutional capacity and to establish a consistent methodological framework for the regular annual assessment and reporting of tax expenditures. Building on this support, the Ministry of Finance, in cooperation with IMF experts, is currently developing a model to assess tax expenditures and progress with the preparation of the Report. Once finalized, the Report will enable systematic recording and enhanced transparency regarding the scope, structure, and fiscal implications of tax expenditures. It will provide a robust analytical basis

	to identify opportunities for improving tax policy, including the evaluation and potential rationalization of existing tax expenditures, with a view to strengthening revenue collection. Regarding the improvement of the operational capacities of the tax administration, the program for **Digital Transformation and Modernization of the Public Revenue Office (PRO) Reform Program 2025–2028 "Transition into the Digital World"** was adopted in October 2024 that represents a strategic roadmap for the digitalization of all PRO functions and its transformation into a flexible and service-oriented tax administration, with a focus on achieving the following projects and results which have been initiated and are in an advanced stage of realization: **1. Consolidated Tax Administration (e-PRO)** **-** "Electronic Tax Administration (e-PRO)" Project (In Progress) - Technical specifications have been prepared for the purpose of procuring services for the development of software for the electronic tax administration (e-PRO), and a public procurement procedure is to be initiated in the coming period. - "Modernization of Tax Services through Development and Establishment of a Unified Web Portal for e-Tax Services" Project (In Progress) - Technical specifications have been prepared, and a project idea is being prepared for financing through international donors. - Introduction of new digital services on the existing IT system. **2. Improvement of PRO's Analytical Capacities and Security** - E-Invoice Project (In Progress) - A public procurement contract has been concluded for the software for the e-Invoice and e-commerce control system. The project implementation with the Contractor is currently underway according to the concluded contract. - Data Warehouse (DW) and Business Intelligence (BI) Tools Project (In Progress) - Technical specifications for procurement have been prepared by the PRO, and a public procurement procedure is to be initiated in the coming period. - Improvement of Taxpayer Compliance Management based on Risk Assessment (In Progress) - The first Register of Risks by Tax Type was adopted in January 2025 (including general risks across all tax types, distributed according to the 4 pillars of compliance—in accordance with the recommendations from reports by international organizations and institutions). A Compliance Improvement Plan for the construction sector has been adopted, and its implementation is underway. Guidelines for the Compliance Risk Management Process have been prepared, establishing a complete systematic process for managing compliance risk within the PRO. A Compliance Improvement Plan for the informal economy has been drafted. Activities for the operationalization of the established and defined systematic compliance risk management

	process, in accordance with the internal acts adopted by the PRO, will follow in the next period. **3. Security, Safety, and Sustainability of the PRO's IT System** **-** "Modernization and Increased Security of the PRO's IT Infrastructure" Project (In Progress) - A procurement procedure for hardware, software, and other equipment for the modernization and increased security of the PRO's IT infrastructure has been announced and is in progress. The implementation of this project will establish a new system for protecting critical data from ransomware, a Cyber Recovery infrastructure, systems for IT infrastructure, systems for protection and network equipment, a system for quality and uninterrupted electrical power supply, and other operational and functional systems.
P3: Make the pension system more sustainable by moving back to a regular rules-based indexation instead of ad-hoc pension increases and by developing proposals for parametric reforms.	The provisions of Article 37 of the Law on Pension and Disability Insurance, which prescribes the methodology for pension indexation with 50% salary increase and 50% cost of living, do not apply in the period from September 1, 2025 to March 31, 2026, according the Article 2 paragraph (1) of the Law on Amendments to the Law on Pension and Disability Insurance ("Official Gazette of RSM", No. 154/2025). In this transitional period, the total monthly amount obtained from the pension increase percentage as a sum of 50% of the balance of the cost of living index and 50% of the balance of the account of the average paid salary of all citizens in the Republic of North Macedonia in the previous half-year in relation to the previous half-year, is divided by the total number of pension beneficiaries who exercised their right to a pension as of August 31, 2025, i.e. February 28, 2026. After the expiration of this period, with the next reconciliation on September 1, 2026, and beyond, the indexation will be according to the methodology in Article 37 of the Law on Pension and Disability Insurance.
Policy Guidance 2:	
P4: Ensure timely implementation of the new Organic Budget Law (OBL) in its entirety by January 2026 by adopting the remaining by-laws, and by ensuring that the Fiscal Council is fully staffed.	The preparation of the remaining secondary legislation is ongoing, and so far 20 secondary acts have been adopted, including two acts that were in the grace period according to the rules of the Reform Agenda: the organizational and programmatic classifications, which were adopted and published in the Official Gazette No. 270/25 on 31 December 2025. The implementation of the OBL is linked to a sophisticated system designed to support the reform process. As a result, the implementation of the OBL will be extended. So far, only one position has been filled in the Fiscal Council. No further obstacles are expected to prevent full staffing.
P5: To enhance private financing of public infrastructure projects based on a suitable regulatory framework,	The Draft Law on Public Private Partnership, after harmonization with the opinions received from the relevant institutions, was submitted to the government procedure and postponed from consideration, due to the need for the Office of the President of the Government, the General Secretariat of the Government and the Ministry of Economy and Labor to submit an opinion on the subject material. Pending the submission of the

adopt the Law on Public Private Partnership.	opinion by the General Secretariat and in order to harmonize with the opinions that were submitted in the meantime by the Office of the President of the Government, the Ministry of Economy and Labor and the Ministry of Finance, joint meetings are planned in the upcoming period, after which the Draft Law will be resubmitted for adoption in the government procedure.
P6: Set up an integrated financial management information system, among others for monitoring and controlling fiscal risks, including those emanating from public infrastructure projects, arrears and guaranteed loans to state-owned enterprises.	The Ministry of Finance recognizes the importance of establishing a fully integrated financial management information system (IFMIS) to enhance monitoring and control of fiscal risks, including those related to public infrastructure projects, arrears, and government-guaranteed loans to state-owned enterprises. Strengthening fiscal risk management is an essential element of the ongoing Public Financial Management reform. In this regard, the IFMIS project is designed to ensure timely, accurate, and comprehensive financial data, which will significantly improve fiscal oversight and decision-making across the public sector. The Ministry continues its activities to develop this project in cooperation with the World Bank, by exploring the possibility of using a new implementation instrument and aligning it with the legal framework.
Policy Guidance 3:	
P7: Continue to calibrate monetary policy appropriately to sustainably achieve price stability and safeguard the currency peg.	After the gradual reduction of the main policy rate in the period from September 2024 to February 2025, in accordance with the achieved slowdown in inflation and favorable developments on the foreign exchange market, in the period March - October 2025 the interest rate of the National Bank remained unchanged at the level of 5.35%. This maintains a cautious approach to conducting monetary policy, in accordance with economic conditions and risks arising from the external and domestic environment. Current interest rates, changes in reserve requirements and macroprudential measures are aimed at maintaining price stability in the medium term and preserving the stability of the denar exchange rate against the euro.
P8: Safeguard the financial independence of the central bank, including by amending profit retention rules to allow for the accumulation of sufficient reserves as coverage for monetary liabilities, and ensure that all relevant legislation safeguards the central bank's operational independence, including the setting of employment conditions.	In January 2025, an amendment to the Law on the National Bank was adopted in the provisions related to the profit distribution, which affected the financial independence of the central bank. As a reminder, this segment of the Law was improved in March 2024, when with previous legal amendments, this segment was regulated in accordance with IMF recommendations and the best international practices, with the aim of ensuring long-term sustainability and strengthening the financial position of the central bank. The latest change to the regulation deviates from these principles. Since then, there have been no new changes in this segment of the legislation. In July 2025, the expected legislative amendments in the Law on Administrative Servants and Law on Public Sector Employees were implemented. Namely, in the newly adopted Law on Administrative Servants there is an explicit exception of the National Bank from its implementation, while the Law on Public Sector Employees the exception is implicit, as the National Bank cannot be identified in the definition of

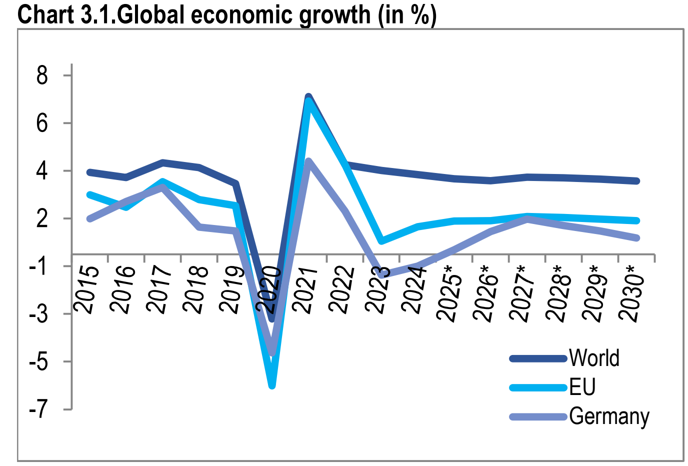
	public sector institutions provided in the law. With the adoption of these provisions, the risk of undermining the independence of the National Bank, in terms of the status of its employees, has declined.
P9: Further strengthen the regulatory framework by adopting the new law on deposit insurance and by making the bank resolution fund operational.	The Ministry of Finance will prepare an amendment to the Law on the Deposit Insurance Fund in the coming period, i.e. alignment with the Deposit Guarantee Schemes Directive, especially in the part of alignment with the Law on Bank Resolution, taking into account that it enters into force on July 1, 2026, with the aim of putting the Bank Resolution Fund into operation.

3. Macroeconomic Framework

3.1 Recent Economic Developments

International Economic Environment[1]. The global economy is adjusting to the new reality shaped by the impact of recent policies. Recovery is moderate and supported by the stabilisation of inflationary pressures and the gradual easing of monetary conditions. Following the imposition of high tariffs by the United States, several agreements were reached to mitigate the restrictions, which led to a reduction in international tensions. On the other hand, many challenges remain regarding the prospects for global growth. The slowdown in growth is driven by uncertainty and protective measures, although the impact of tariffs has been smaller than expected. Growth remains unevenly distributed across regions, with advanced economies experiencing slow but steady expansion, while emerging and developing economies continue to be the main drivers of global activity.

Chart 3.1.Global economic growth (in %)



Source: International Monetary Fund, October 2025 (forecast)

According to the IMF's October report, global economic growth is expected to slow from 3.3% in 2024 to 3.2% in 2025 and 3.1% in 2026. This represents an upward revision compared to the July and April 2025 reports, but overall remains 0.2 p.p. lower than the projections published in October 2024. Advanced economies are expected to grow by 1.6% in both 2025 and 2026, with growth in the United States slowing to 2% in 2025 (compared to 2.8% in 2024). Growth in developing economies is projected at 4.2% in 2025 and 4% in 2026. The Eurozone is projected to register a moderate recovery, with growth of 1.2% in 2025 and 1.1% in 2026. However, this represents a downward revision compared with last year's projections, amid increased uncertainty across various areas and higher tariffs. The recovery of private consumption, supported by higher real wages and fiscal easing in Germany in 2026, only partially compensates for this downward adjustment. Germany is projected to grow by 0.2% in 2025 and 0.9% in 2026. In the medium term, global economic activity is projected to expand by 3.1% over the period 2026–2030, while average economic growth in the EU for the same period is projected at

[1] International Monetary Fund "World Economic Outlook", October 2025.

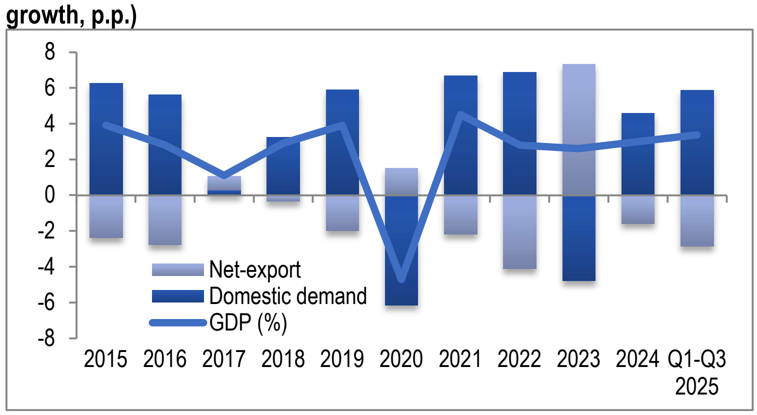
1.5%. Analyzing the projected five-year growth, it is notable that it is lower compared to the pre-pandemic period. This lower growth is the result of ongoing structural challenges, such as population aging and low productivity, which limit potential growth in a large number of economies (Chart 3.1).

Global inflation is expected to decrease to 4.2% in 2025 and 3.7% in 2026, with advanced economies projected to see a reduction from 2.5% in 2025 to 2.2% in 2026, and developing economies from 5.3% in 2025 to 4.7% in 2026. Progress in reducing inflation varies across countries, and inflation projections have remained largely unchanged, with inflation rising in the United States while declining in many other countries.

Gross Domestic Product. Growth of domestic economic activity in the third quarter of 2025 further accelerated, recording real growth of 3.8% year-on-year, following increases of 2.9% in the first quarter and 3.5% in the second quarter, resulting in GDP growth of 3.4% in the first nine months of 2025. Positive developments in economic activity continued despite uncertainties arising from external factors.

Analyzed from the **expenditure side**, growth in economic activity during this period was driven by increased domestic demand, amid higher gross investments and moderate consumption growth, while net exports contributed negatively to growth. Gross investments in the third quarter of 2025 recorded significant growth of 30.6% on an annual basis, primarily driven by strong investment in fixed assets. Cumulatively, in the first three quarters of 2025, gross investments increased by 14.0%. The high investment growth is underpinned by increased investment activity in the domestic private sector, supported by strong utilisation of favorable credit lines provided by the Government and by accelerated implementation of strategic infrastructure projects, particularly Corridors 8 and 10d. Additionally, strengthened municipal support for the execution of capital investments contributes to intensifying the investment cycle and ensuring a more balanced regional economic development. Consumption in the first nine months of 2025 increased by 2.7% in real terms. Private consumption grew by 2.1%, mainly due to higher household disposable income, driven by increased employment, higher wages and pensions, and supported by household lending. Public consumption increased by 5.0%. Foreign trade in the first three quarters of 2025 showed signs of gradual recovery following the continuous decline observed in 2024. Exports and imports of goods and services recorded real growth of 4.9% and 7.9%, respectively, indicating a gradual recovery in international trade dynamics and increased demand both abroad and domestically.

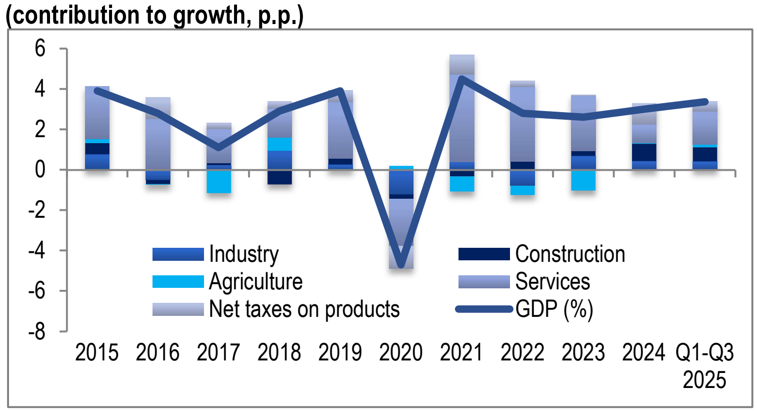
Chart 3.2. Economic growth by expenditure approach (contribution to growth, p.p.)



Source: SSO and MoF calculations

Analysed from the **production side**, growth in the first three quarters of 2025 was broad-based, with positive results across all sectors. The largest

Chart 3.3. Economic growth structure by production approach (contribution to growth, p.p.)

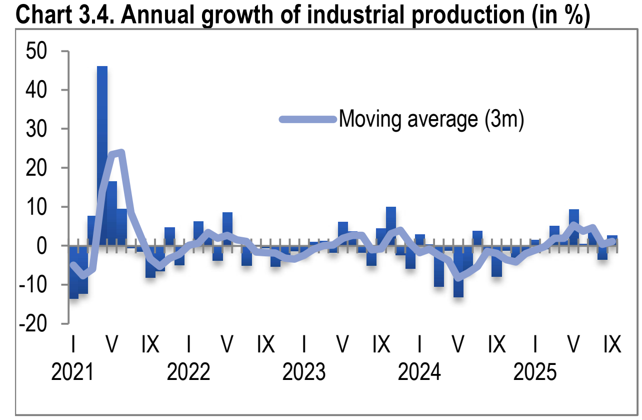


Source: SSO and MoF calculations

contribution to economic growth came from the services sector, which increased by 2.8%, driven by trade, transport, and hospitality activities, which grew by 4.0% and contributed most to growth in the services sector. Significant growth was also recorded in professional, scientific, and technical activities (5.6%) and in information and communication activities (5.2%). Construction activity in the third quarter of 2025 recorded strong growth of 21.0%, primarily due to increased activity in the civil engineering segment, which rose by 58.5%, reflecting intensified investments and accelerated progress on infrastructure projects, particularly Corridors 8 and 10d. Cumulatively, construction grew by 13.0% in the first three quarters. Industry registered growth of 2.5%, supported by stable growth in manufacturing of 3.6%, while agriculture grew by 2.5.

According to high-frequency data, industrial production continued to grow moderately in 2025, reaching cumulative growth of 2.3% in the first nine months. The largest positive contribution came from manufacturing, which increased by 3.7%, while the mining and quarrying sector recorded modest growth of 0.6%. Conversely, the electricity supply sector decreased by 10.4% during the analysed period. The real value of completed construction works recorded double-digit growth of 17.9%, led by civil engineering with substantial growth of 23.5%, as well as positive performance in specialised construction works, while building construction declined compared to the same period of the previous year. Retail trade grew by 1.6% in real terms in the first nine months of 2025. Exports of goods increased by 2.0% on a nominal basis, driven by higher exports of road vehicles, electrical machinery, appliances and parts, as well as tobacco and tobacco products, while imports rose by 3.6%, mainly due to higher imports of non-ferrous metals and electricity.

Chart 3.4. Annual growth of industrial production (in %)

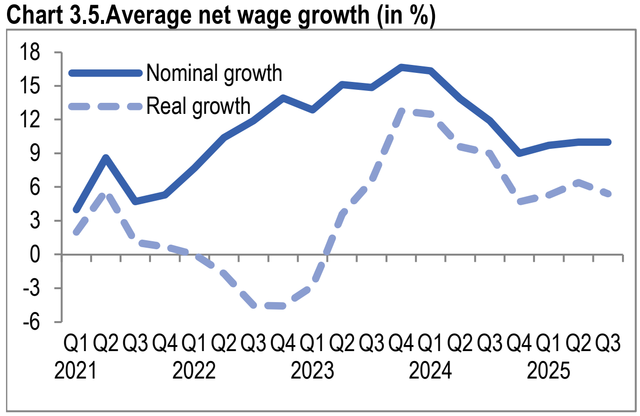


Source: SSO

2025 Estimate. The projection for real GDP growth in 2025 has been moderately revised to 3.5% (from 3.7%), reflecting an upward revision of 2024 outcomes and risks arising from the external environment, particularly among major trading partners.

Labour market. According to data from the State Statistical Office, the unemployment rate among persons aged 15–74 stood at 11.5% in the third quarter of 2025, marking a decline of 0.8 p.p. compared to the same quarter of the previous year. The unemployment rate for the 15–64 age group amounted to 11.7%, decreasing by 0.8 p.p. compared to the same period of the previous year, while youth unemployment (ages 15–29) stood at 24.7%, reflecting an increase of 1.1 percentage points on an annual basis. The total number of unemployed persons aged 15–74 amounted to 91,765 in Q3 2025, reflecting a year-on-year decrease of 6.7% (or 6,557 persons).

Chart 3.5.Average net wage growth (in %)



Source: SSO

The employment rate in the third quarter of 2025 reached 46.5% for the 15–89 age group and 58.8% for persons aged 15–64. Compared to the same quarter of the previous year, employment rates for these groups increased by 0.4 p.p. and 0.6 p.p., respectively. The total number of employed persons aged 15–89 amounted to 705,165, recording a year-on-year increase of 1.0% (or 6,754 persons). Among young people aged 15–29, the employment rate stood at 36.6%, representing a decline of 0.5 p.p. compared to Q3 2024.

Regarding labour market participation, the total active population aged 15–89 amounted to 796,930 persons, corresponding to an activity rate of 52.5% of the working-age population. The activity rate for the 15–64 age group stood at 66.6%, while among young people aged 15–29 it amounted to 48.5%.

The average net wage in January–September 2025 increased by 9.9% compared to the same period of the previous year, corresponding to a real increase of 5.7%. Wage growth was recorded across all sectors, with the strongest increases in education, health and social care, and administrative and support service activities.

External Sector. In the first three quarters of 2025, the current account of the balance of payments registered a deficit of 2.8% of GDP (despite the deficit of 0.4% of GDP in the same period last year). Observed by individual components, the widening is due to the smaller surplus in services and secondary income, and the slight widening of the trade deficit, compared to the slight narrowing of the primary income deficit. Within the secondary income, the net inflows based on purchased cash foreign currency on the currency exchange market (used as an indicator of the cash private transfers) were lower by 3.2% compared to the same period last year.

Table 3.1. Balance of payments

(% of GDP)	2020	2021	2022	2023	2024	I-IX.2025
Current account deficit	-2.9	-2.8	-6.1	0.3	-2.2	-2.8
Goods, net	-16.6	-19.7	-26.3	-18	-19.7	-14.5
Services, net	3.9	4.2	5.7	5	6.7	4.4
Primary income, net	-3.8	-4.4	-4.3	-5.1	-5.1	-3.7
Secondary income, net	13.6	17.1	18.9	18.4	15.9	11
Financial account, net (without foreign reserves)	3.8	3.4	7.8	3.5	3.6	-0.4
FDI, net	1.4	3.3	4.9	3.3	6.6	0.3
Portfolio investments, net	2.6	1.0	0.4	-0.2	-1.9	-4.1

Source: NBRNM. SSO. NBRNM forecast for GDP in 2025.

In the first three quarters of 2025, the **financial account** registered net outflows, mainly reflecting the outflows in portfolio investments based on debt repayment on government Eurobonds. On the other hand, inflows were registered mainly based on foreign direct investments (FDIs), government loans from abroad and trade credits. FDIs, net, amounted to 0.3% of GDP (compared to 4.7% of GDP in the same period last year). These inflows were registered as a result of positive developments in the equity and reinvested earnings, which was largely offset by net outflows based on intercompany debt.

At the end of September 2025, the gross foreign reserves stood at Euro 4,722.7 million, which is by 6.1% lower compared to the end of 2024[2]. Cumulatively, this change in foreign reserves mainly stems from the outflow based on government transactions for foreign debt servicing, amid almost neutral net interventions in the foreign exchange market by the National Bank. Foreign reserves are maintained at an adequate level, providing an average coverage of the import of goods and services of about 4.4 months of the next year.

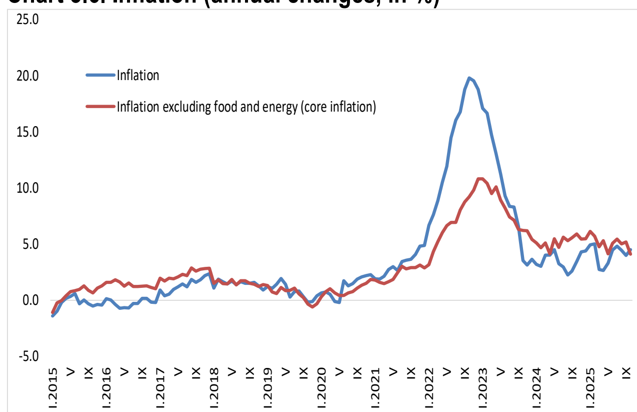
Inflation. In line with global market developments and the measures taken, the average annual inflation rate of 9.4% in 2023 decreased to 3.5% in 2024. In the first nine months of 2025, the average annual inflation was

[2] As of the end of October 2025, their level was lower by 3.7% compared to the end of the previous year.

maintained at a moderately higher level and averaged 4%. In terms of the individual components[3], a positive contribution was made by core inflation and food prices, amid an insignificant negative contribution of energy prices.

Core inflation (excluding food and energy) showed high persistence and equaled 5.2%, on average, in the period January - September 2025 (according to NBRNM calculations). The main contribution to the average core inflation arises from the higher prices in the category “restaurants and hotels” and “non-alcoholic beverages”, given additional contribution also of almost all other items within the index, and effects also of single non-market price changes (higher excises on tobacco). Within the National Bank’s Inflation Expectations Survey, conducted in September 2025, the surveyed economic analysts expect that the inflation rate will continue to slow down also in the following two years, whereby the global uncertainty and the world trade policies and their potential impact on the global inflation, the effects of climate changes on production and food prices, as well as the factors related to domestic demand and the market behavior of companies, are stated as potential risks.

Chart 3.6. Inflation (annual changes, in %)



Source: SSO, NBRNM calculations.

Monetary Developments and Exchange Rate. After the gradual decrease in the policy rate in the period from September 2024 to February 2025, given the inflation slowdown and the favorable developments on the foreign exchange market, in the period March - October 2025 the interest rate of the National Bank remained unchanged and amounted to 5.35%. Thus, the cautious approach when conducting monetary policy, in accordance with the economic conditions and the risks arising from the external and domestic environment, is maintained. The foreign exchange market was stable, and the foreign reserves were maintained at an adequate level. The current interest rates, accompanied by changes in reserve requirement and macro-prudential measures, are aimed at maintaining the medium-term price stability and preserving the stability of the exchange rate of the denar against the euro.

The National Bank continues to have an available repo line in euros, granted by the ECB. Namely, in August 2020, the ECB announced that for the first time it granted the National Bank of the Republic of North Macedonia a euro repo line, with a possibility of utilization initially until June 2021, then prolonged until March 2022, but taking into account the global effects of the Russian-Ukrainian crisis, the utilization was again prolonged for several times, with the latest prolongation the line going to be available until January 2027. The repo line is intended for providing additional foreign currency liquidity in the banking system, if necessary, which is a significant support in dealing with the pandemic-related crisis and the consequences of the Russian-Ukrainian conflict (no funds from this line have been used so far).

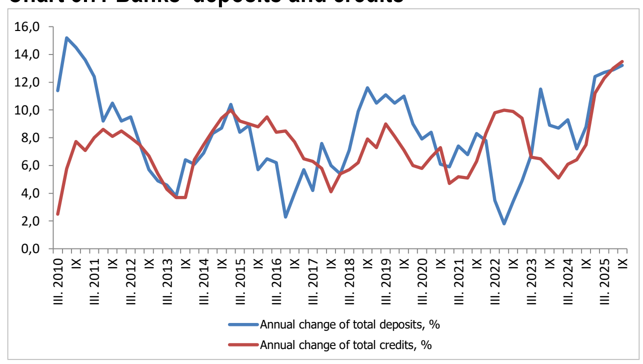
During 2025, given the economic activity dynamics, the monetary aggregates growth accelerated, with the broad money M4 registering an annual increase of 12.9% at the end of September 2025 (increase of 11.4% at the end of 2024). Simultaneously, in September 2025, total private sector deposits were higher by 13.2% on an annual

[3] In February, the Government adopted a decision on limiting the gross profit margin of 102 product groups, food and non-food, with effect from 20 February until the end of April 2025, and in August the Decision on limiting the margin for school kit was adopted.

basis (compared to 12.4% at the end of 2024). Analyzing by sector, the growth of household deposits remained stable and in September 2025 amounted to 13.6% (at the end of 2024 they increased by 13.8%), while the growth of corporate deposits accelerated to 12.8% (compared to 9.2% at the end of 2024). However, at the end of September, approximately 70% of the annual growth of total deposits resulted from the growth of household deposits. From structural point of view, half of the annual growth of total deposits stems from the growth of demand deposits, followed by short-term and long-term deposits (with an almost equal contribution).

Observing by currency, the growth of denar deposits (including demand deposits) was faster and at the end of September 2025 amounted to 18.9% annually, while the growth of foreign currency deposits (including deposits with a currency clause) in September amounted to 5.5%, indicating further denarization of the structure of deposits. The share of deposits with foreign currency component (FX and FX clause) in total deposits at the end of the third quarter of 2025 was 39.6%, which is lower compared to the end of 2024 (40.6%), as well as relative to the period of the energy crisis from mid-2022 (46%).

Chart 3.7. Banks' deposits and credits

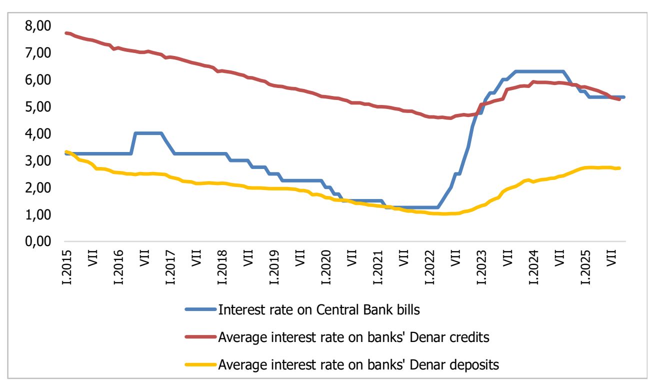


Source: NBRNM.
* In the period VI.2016-VI.2017 and in Q3.2019 corrected for the write-offs.

During 2025, in conditions of further recovery of the economic activity and solid deposit base, the bank loans to the private sector moderately accelerated. In September 2025, the annual credit growth equaled 13.5% (as opposed to 11.2% at the end of 2024). Larger acceleration was registered in corporate loans, given simultaneous acceleration in household loans, with the corporate loans registering annual growth of 16.5%, while the household loans were higher by 10.8%, annually. Moreover, about 59% of the annual growth of total loans resulted from the growth of corporate loans. According to the Bank Lending Survey, in the first three quarters of 2025, banks reported mainly net easing of the credit conditions for companies and households (amid unchanged conditions for companies solely in the third quarter). Also, in the same period there was an increased demand for loans from these two sectors, amid gradual slowdown in the corporate demand and growing household demand in the third quarter.

During 2025, the interest rates of the banking sector had declining dynamics on the credit side, while on the deposit side they remained unchanged. In September 2025, the average weighted interest rates on denar loans amounted to 5.3% annually and compared to December 2024 they are lower by 0.4 p.p., and the average weighted interest rates on denar deposits amounted to 2.7%, which is an unchanged level compared to the end of the previous year. Interest rate spread between denar lending and denar deposit interest rates decreased by 0.5 p.p. compared to the end of 2024 and equaled 2.5 p.p.. In September 2025, the average interest rates on foreign currency loans amounted to 4.2% which is by 0.5 p.p. less compared to the end of 2024, while the average interest rates on foreign currency deposits amounted to 1.7%, which is the same as at the end of the previous year, whereby the interest rate spread between them narrowed by 0.5 p.p. compared to December 2024 and amounted to 2.5 p.p.. The interest rate differential between average denar and foreign

Chart 3.8.Interest rates (in %, on annual basis)



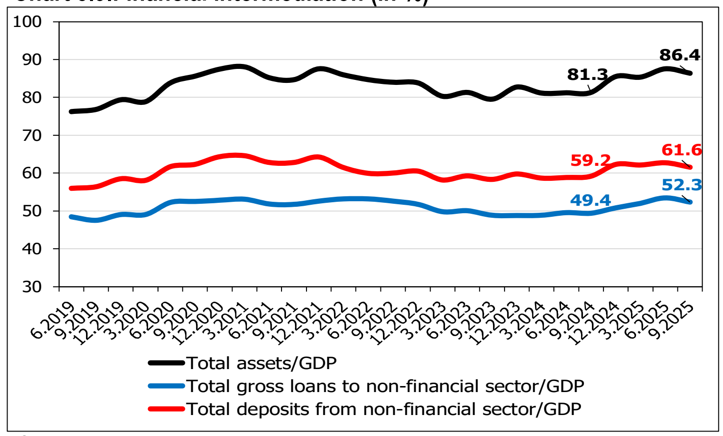
Source: NBRNM.

currency deposit interest rate remained unchanged and equaled 1 p.p. in September 2025. The interest rates on the newly received denar and foreign currency deposits in banks in the first nine months decreased by 0.7 and 0.6 p.p., respectively, compared to the end of the previous year, whereby the interest rate differential in the newly received denar and foreign currency deposits has slightly narrowed (by 0.1 p.p.) and amounted to 0.9 p.p..

The Macedonian **financial system** has a relatively simple structure, without complex financial instruments and services and low connection between the individual sector segments, which limits the possibilities for spillover of risks from one segment to another. The assets of the financial system, including its individual segments, increased in 2024, except for savings houses. The banking system prevails in the assets of the financial system, followed by private pension funds with a more pronounced share.

Banking System. The banking system is crucial for the financial stability, since it concentrates the savings of non-financial sectors, as well as a significant part of the assets of certain non-banking financial institutions. The share of the banks in the financial system, as measured by the amount of assets, has been gradually declining over the years, and as of 31.12.2024 it equaled 76.2%4. As of 30.9.2025, the number of banks in the Republic of North Macedonia is thirteen. Nine of them are banks in predominant foreign ownership, five of which are subsidiaries of foreign banks. Foreign banks (mainly EU) dominate almost all the important positions of the banking system's balance sheets. The concentration in the banking system, measured by the Herfindahl index is within acceptable values of this index.

Chart 3.9.Financial intermediation (in %)



Source: NBRNM.

In the third quarter of 2025, the banking sector retained its stability, with stable and solid solvency and liquidity, and improving quality of the credit portfolio. However, the uncertainties and the risks in the external environment remain present, primarily related to geopolitical tensions, future trade policies, disturbances in the supply chains and climate factors, but also to domestic factors that can affect demand and prices in the domestic economy. In this quarter, the National Bank maintained the cautious approach when conducting the monetary policy and did not change the interest rate on CB bills, and adopted amendments to the reserve requirement setup, which strengthened the importance of this instrument in encouraging the savings in domestic currency and at longer maturities. Regarding the macro-prudential policy, since August 2025 a higher rate of the countercyclical capital buffer has been applied (by 0.25 percentage points), in the amount of 1.75%, which in the last quarter of 2026 will further increase to 2%. The latest decision on increasing the countercyclical capital buffer rate, adopted in September 2025, is based on the assessments for prolonged uncertainty arising from the environment and acceleration in the credit growth, which can affect the materialization of the cyclical systemic risks, amid safe and sound banking sector. At the same time, new macro-prudential measures, applicable as of 1 December 2025, were also adopted, which tighten the criteria for the quality of credit demand, in order to further protect households against possible excessive indebtedness, and consequently reduce the risks to banks and financial stability. Thus, the minimum share for a housing loan increases from 15% to 25%, except for the persons with

[4] Source: Financial Stability Report for the Republic of North Macedonia in 2024, National Bank of the Republic of North Macedonia.

an unresolved housing issue for whom there is a more favorable share of 10%, under certain conditions. The borrowing limits were tightened to 50% and 45%, for denar exposure and exposure with foreign currency component, respectively, except for the first residence loans which are regulated by the existing limits of 55% for denar exposure and 50% for exposure with foreign currency component. The risk exposure indicators of the banking sector are stable, while the stress tests indicate a solid capacity to deal with assumed shocks.

The activities of the banking system grew, amid further deposit and credit growth. As of 30.9.2025, the shares of total assets of the banking system, loans and deposits in GDP amounted to 86.4%, 52.3% and 61.6%, respectively.

Credit risk is the is the most prevalent risk in the bank operations, and their exposure to this risk is moderate. In the third quarter of 2025, the banks' credit portfolio improved its quality. Non-performing loans to non-financial entities reduced and the rate of non-performing loans improved, to the historically lowest level of 2.3%. There are similar movements in non-performing loans and in the individual non-financial sectors, households and companies, whose rates of non-performing loans reduced to 2.3% and 2.4%, respectively. The potential risks of default of the entire amount of the identified non-performing loans are limited, due to their high coverage with impairment for expected credit losses, while the share of the non-provisioned part of the non-performing loans decreased even more to the level of 3.9% of own funds. Prolonged and restructured loans are low and are decreasing, whereby they do not represent a significant source of risk to future deterioration of the quality of credit portfolio. Moreover, the results of the credit risk stress-test simulations, confirm the banking sector resilience to relatively extreme deterioration of the credit portfolio risk. Given the still present risks from the environment, banks need to remain cautious in credit risk management.

The banking system exposure to interest rate risk and currency risk is within the prescribed limits and amounts to 12.7% (prescribed limit of 20%) and 5.1% (prescribed limit of 30%), respectively. The exposure to indirect interest risk continued to decrease, but remains high given the share of loans with adjustable or variable interest rate in total loans of 61.4%. The exposure to indirect currency risk, for a certain period, has been showing a trend of reduction, although in the third quarter of 2025, the share of the foreign currency component (foreign currency and foreign exchange clause) in the banks' balance sheets slightly increased.

Profitability. The profits of the banking system earned in the first nine months of 2025 were by 2.9% lower compared to the same period last year. This largely results from the growth of operating costs (9.4%) and impairment costs (9.8%), but also from the small decline in net interest income (0.6%), as the most important income category of banks. The rates of return on average assets and average equity and reserves are lower compared to the same period last year, but remain at a solid level of 2.3% and 17.5%, respectively.

The solvency of the banking system remained at a high level. The capital adequacy ratio is stable and as of 30.9.2025 amounted to 19.5%, amid further growth of own funds supported by the issuances of new instruments of the core capital and the additional capital and by the retention of part of the profits from 2025 in some banks. Almost 40% of the banking system's own funds account for the capital buffers or are "free" over the required minimum and represent an important buffer for covering possible future unexpected losses of the banks. The conducted stress testing shows that the banking system is resilient to the simulated shocks.

Liquidity risk. The banking system traditionally maintains a high volume of liquid assets, which enable its high resilience to shocks, but also satisfactory capacity for timely and regular servicing of liabilities. The share of the banks' liquid assets in total assets, short-term liabilities and household deposits equals 30.6%, 53.3% and 61%, respectively. The liquidity coverage ratio of the banking system amounts to 267% and is significantly over the regulatory minimum (100%). The liquidity-related stress test results indicate satisfactory resilience of the banking system to the assumed extreme, individual and combined liquidity outflows.

Table 3.2 Main indicators for the banking sector (in %)

		2020	2021	2022	2023	2024	9.2025
Capital adequacy							
	Regulatory capital/risk weighted assets	16.7	17.3	17.7	18.1	18.9	19.5
Asset quality							
	Non-Performing Loans / gross loans	3.4	3.2	2.9	2.8	2.7	2.3
	Total provisions to Non-Performing Loans	141.1	134.1	148.8	150.4	140.7	152.2
Profitability							
	ROAA	1.3	1.5	1.5	2.0	2.2	2.3
	ROAE	11.3	12.9	12.2	16.1	17.6	17.5
	Operating costs / total regular income	48.2	47.4	47.8	43.4	42.0	43.7
Liquidity							
	Liquid assets/ total assets	32.5	32.4	30.0	31.8	32.6	30.6
	Liquid assets to total short-term liabilities	53.8	52.3	47.7	52.3	55.7	53.3
Market risk							
	Net open foreign exchange position / own funds	10.1	2.1	6.7	10.7	8.1	5.1

Source: NBRNM.

Macroprudential framework. On the basis of the Financial Stability Law from August 2022 and the Banking Law, the National Bank so far has undertook several macro prudential measures:

- capital conservation buffer, set at 2.5% of the risk-weighted assets, effective since 2017 and applicable to all banks;
- capital buffer for systemically important banks - according to the latest calculations and the new methodology (from December 2024), based on the data for the period July 2024 - June 2025, 6 systemically important banks have been identified, which should achieve and maintain a rate of the capital buffer for systemic importance that ranges between 1% and 2.5% of risk-weighted assets. The new methodology for identifying systemically important banks from December 2024 enables approximation to the standards applied in the EU;
- the countercyclical capital buffer started to be applied from 1 August 2023 in the amount of 0.5%, aimed to respond to the estimated gradual accumulation of cyclical systemic risks as a result of the environment, growing housing loans and apartment prices. Subsequently, the amount of this capital buffer has increased on several occasions, so that from 1 August 2025 it amounts to 1.75%, and from 1 October 2026 it is scheduled to be 2%;
- the systemic risk capital buffer is 0%;
- the macro-prudential measures for the quality of credit demand from individuals are applied since 1 July 2023, in particular the indicators: DSTI (debt service to income ratio), LTV (loan to value), DTI (debt to income) whose amount for the time being is not prescribed, and limits of the maximum maturity of loans. As of 1 December 2025, tougher measures for the quality of credit demand are applied, i.e. the amount of LTV was limited to 75%, compared to the current limit of 85%, while the DSTI limits were tightened by 5 percentage points, up to 50% for denar loans and 45% for loans with foreign currency component. In order to enable smooth resolution of the housing issue, more favorable limits of these ratios were introduced for the persons who purchase an apartment/house for own residence and who do not have another housing loan and do not have another residential property in their ownership (LTV ratio limit of 90% and DSTI of 55% and 50% respectively for denar loans and for loans with foreign currency component). The limitation of the maximum maturity of housing loans to 30 years and mortgage loans for other purposes to 20 years, was maintained.

At the beginning of 2025, the National Bank prepared and published the first Report on the implementation of the macro-prudential policy of the National Bank.

The Financial Stability Committee and the two subcommittees (Subcommittee for Monitoring Systemic Risks and Proposing Macro Prudential Measures and Subcommittee for Financial Crisis Management), hold regular meetings, which discuss matters within the competence of these bodies in accordance with the Law.

Performance of the non-financial sector. The non-financial sector is vulnerable to the risks from the environment and the shocks that could adversely affect the household income and the activities of the corporate sector. Such a risk has been currently mitigated by the good financial position of households and the corporate sector, but there is a need for vigilance and prudent debt management, in order to ensure its sustainability also in the following period.

In 2024, the **household** debt grew, but the level of indebtedness remains stable and amounts to 28.4% of GDP. The growth of savings accelerated and was driven by the favorable macro environment, the increased disposable income and the National Bank measures, whereas it was mostly aimed at saving in domestic currency and on longer terms. Solvency and liquidity ratios of the household sector are within their usual, satisfactory levels, indicating limited sensitivity of the sector to shocks, with a limited systemic vulnerability of this sector as well. The National Bank's macro-prudential measures, taken in the second half of 2023, maintained the banks' prudence in lending to housholds, thus preventing their over-indebtedness, as well as systemic risk accumulation in this segment.

In 2024, the **corporate** debt increased (to 71% of GDP), but remains below the calculated vulnerability threshold (85%[5]). Non-residents remain the most important corporate creditor, with an accelerated increase registered in the domestic banks' indebtedness, due to the increased needs for investments amid relaxed financial conditions. The currency risk remains high for this sector due to the high share of the debt with foreign currency component, yet it is limited due to the implementation of the strategy of de facto fixed exchange rate of the denar against the euro. In addition, in the current environment, both the risks associated with the geopolitical tensions and the uncertain trade policies are especially high, with still pronounced poor financial discipline as well. Hence, further vigilance in debt management is necessary, coupled with measures and policies that will promote productivity and efficiency in operations, through investments in technologies for the purpose of streamlining the processes and strengthening the competitiveness of domestic companies. The recent SEPA membership is a significant step in this direction, which will ensure cheaper, faster and more efficient payment system in euros, as well as the access to more favorable loans from the Hungarian credit line aimed at investments.

SEPA entry. The National Bank, in its capacity as regulatory and supervisory institution for payment service providers in the country, on 10 July 2024, submitted formal application for the country's accession to the Single Euro Payments Area (SEPA). In March 2025, the European Payments Council accepted our country's application for joining SEPA, which enables domestic banks to be integrated into the European payment scheme in which the payment service providers from 40 countries participate, as a historic step for further development and integration of the domestic financial system in the European economy. The country's membership in SEPA will bring numerous benefits to citizens, companies and the overall economy, taking into account that most of the cross-border payments are made in euros. The efficiency of payments in SEPA will also reduce the use of cash, promoting the use of digital payment methods and encouraging the transition to a modern digital society. For businesses, joining SEPA will provide easier access to the EU market, facilitating cross-border trade in goods and services.

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[5] In the MIP Scoreboard used by the European Commission to assess potential risks and macroeconomic imbalances in the EU countries, the vulnerability threshold for the corporate sector debt is determined at the level of 85%. For more details please visit the following link.

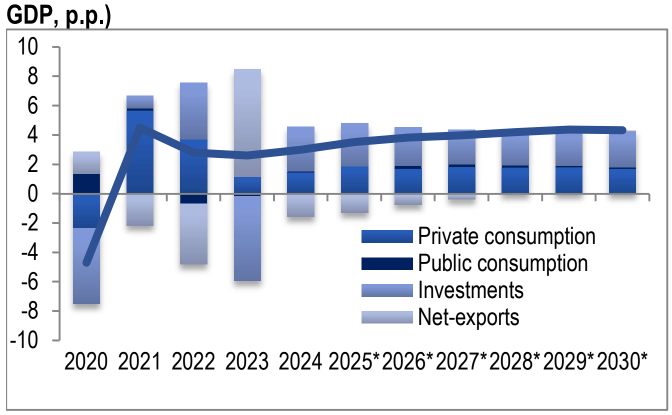
As of 7 October 2025, nine banks started to make payments within the SEPA credit transfer scheme. The other three banks are intensively working on the integration in this scheme and they are expected to complete their activities by the end of the first quarter of 2026, according to the deadline specified in the National Bank's decision. In October, the National Bank signed a Letter of Intent with the Bank of Italy, on the basis of which the Bank of Italy will develop a TIPS clone (Target Instant Payment Settlement) for five Western Balkan countries, in accordance with the decision of the Governing Council of the European Central Bank. The TIPS clone is intended for making domestic instant payments in the national currencies of the Western Balkan countries, with a possibility of connecting with TIPS for making payments in euros in SEPA.

3.2 Medium-Term Macroeconomic Scenario

Gross Domestic Product. According to the baseline macroeconomic scenario, economic growth over the period 2026–2030 is projected at 4.1%. Gross fixed capital formation is expected to be the main driver of economic activity, supporting its gradual acceleration over the medium term.

The medium-term macroeconomic scenario for 2026–2030 incorporates the assumptions, projects, and measures outlined in the Government of North Macedonia's Work Programme. Strategic investments in infrastructure and energy, financial support for investment activity in domestic manufacturing companies to enhance innovation, competitiveness, and productivity, reforms in the business environment and tax policy, and export growth constitute the main assumptions of the medium-term macroeconomic scenario. Under expected stabilisation of geopolitical and trade tensions, these factors are anticipated to contribute to a gradual acceleration of economic growth. Human capital development is a key precondition for achieving higher medium-term growth rates, through increased efficiency and productivity in the domestic economy. Reforms in education, aligning labor market needs with contemporary trends, as well as improvements in health and social protection, are expected to strengthen human capital as a foundation for long-term development. Strengthening the rule of law, with a focus on combating corruption, the informal economy, and unfair competition, alongside digitalisation of public service delivery, is expected to significantly enhance growth potential. Significant contributions to growth are also anticipated from activities aimed at attracting FDI and expanding existing capacities. Through the introduction of modern technologies, further diversification of production towards higher value-added products, and market diversification, the country's export capacity is expected to be further strengthened. The presence of a larger number of foreign companies will open opportunities for collaboration with domestic enterprises, which, supported by government measures to enhance operational standards and competitiveness, will be able to integrate into global supply chains. Considering the structure and openness of the Macedonian economy, one of the main assumptions for achieving accelerated growth is the normalisation of global economic conditions, stabilisation of inflationary pressures, and strengthening of economic activity among major trading partners, which is expected to increase external demand and improve the investment climate.

Chart 3.10. Expenditure structure of GDP growth (contribution to GDP, p.p.)



Source: MoF calculations based on SSO data (* forecast)

Support for economic growth is also expected from the EU Growth Plan, an instrument that stimulates convergence towards the EU average standard through the provision of additional financing for capital projects and planned structural reforms under the 2024–2027 Reform Agenda, which contains reform measures in five priority areas and enables access to approximately EUR 750 million in budget support for the country. Investments under the Reform Agenda relate to transport and energy infrastructure, education, and digitalisation.

Gross fixed capital formation is expected to remain the main driver of economic activity, supported by the accelerated implementation of major state-financed infrastructure projects (Corridors 8 and 10, and railway infrastructure). Over the 2026–2030 period, investments are projected to grow at an average annual rate of 7.2%, supported by high levels of planned capital expenditure in the Budget, alongside measures to optimise costs, scheduling, and construction conditions. These efforts aim to provide high-quality infrastructure, enhance business competitiveness, and attract new foreign investment. In addition to road and railway infrastructure, substantial investments in the energy sector are expected, contributing to energy transformation, independence, and sustainability, as well as investments in education, healthcare, and the environment. An additional driver of gross investment will be municipal support for the implementation of capital projects, aimed at promoting balanced regional development and improving citizens' quality of life. Domestic enterprise investment activity is expected to make a significant contribution to overall investment growth, supported by utilisation of favorable government-provided credit lines for new production capacities and competitiveness enhancement. Beyond financial support, companies will benefit from a predictable tax environment, digitalisation of services, and reductions in bureaucracy and border procedures. Favorable investment conditions are expected to attract increased FDI, foster further diversification of the production structure, and open new markets.

Private consumption is expected to be a significant driver of economic growth over 2026–2030, with an average annual real growth of 2.7%. Growth in private consumption is linked to expected increases in employment, stable levels of private transfers, and credit support from banks.

Public consumption is expected to grow moderately, on average annually by 1%, reflecting efforts to reduce non-productive budget expenditures, improve public financial management, and implement fiscal consolidation measures.

Labour Market. The labor market is expected to continue strengthening over the medium term, driven by investments and demand for labor, supported by measures and activities aimed at creating new jobs. Despite demographic pressures from population aging and emigration, especially of the working-age population, there is scope for employment growth, given that nearly half of the working-age population is inactive. Measures aimed at better targeting social assistance and activating unemployed beneficiaries of social support are expected to positively affect employment. Increased resources are also planned for active labor market programs, with a particular focus on youth, women, and vulnerable groups, including skills development, upskilling, reskilling, and entrepreneurship support. Reforms in secondary vocational education and improvements to general education curricula to provide digital skills are expected to reduce labor market skill mismatches. Over 2026–2030, employment is projected to increase, with average annual growth of 1.7%. These developments are expected to gradually reduce the unemployment rate, which is projected to reach 7.5% by 2030, while the employment rate is expected to rise to 50.7%. Average net wages are projected to grow at an average annual rate of 5.1%, mainly driven by productivity gains in the economy.

Sources of Growth. In 2026, a positive contribution to economic growth is expected from both capital (investment in fixed assets) and labor, reflecting the continued strengthening of the economy, higher labor force participation, a lower unemployment rate, and growth in total factor productivity (TFP)[6]. Chart 3.11 presents

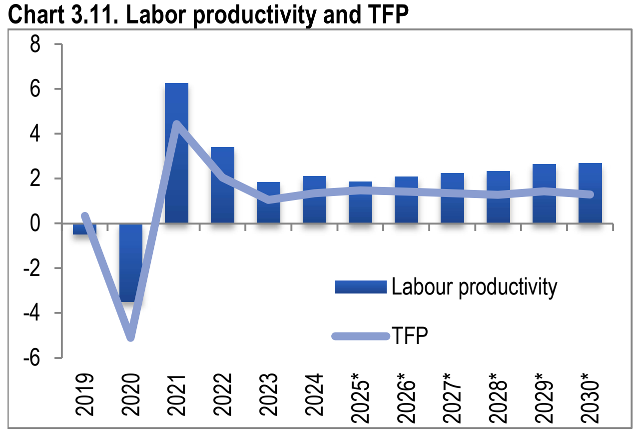
[6] TFP is residual of growth of other factors to economic growth, labour and capital. As regards the calculation of physical capital, the so-called perpetual inventory method has been applied (see Berlemann and Wesselhöft, Estimating Aggregate Capital Stocks Using the Perpetual Inventory

projections for labor productivity and TFP up to 2030. Over the 2026–2030 period, TFP is expected to remain a significant source of growth, accounting for around one-third (33%) of the contribution to economic growth during this period. Physical capital, based on investment growth projections, is expected to record an average annual growth rate of 4.4% over the analysed period, contributing around 43% to total economic growth. The contribution of labor to economic growth is estimated at approximately 24%.

Potential Growth and Production Gap. Calculation of potential output is the basis for estimating the cyclical position of the economy. Two methods have been used to calculate potential output. The first group of methods is based solely on historical data on real GDP, i.e., the group of statistical methods (a-theoretical), whereby the Hodrick-Prescott (HP) filter and Christiano-Fitzgerald (CF) filter are applied, while the second group, structural methods, applies the Production Function Approach (PFA). Results from the calculation of potential output are presented in the charts below, as well as in Table 5 in Annex 1.

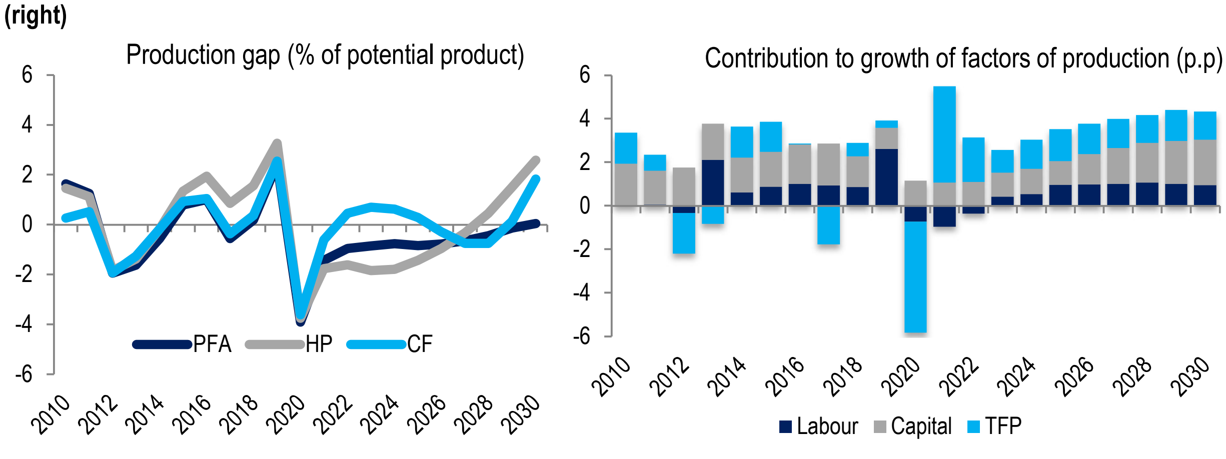
According to the projections for real GDP growth over the upcoming medium term and the estimates of potential output, the cyclical component of output is expected to remain in negative territory in 2026, reflecting the economy's recovery from external shocks, according to all three methods. The output gap is expected to close in 2028, based on the PFA with the HP filter. By 2030, all three methods indicate a positive output gap (Chart 3.12). The same chart also shows the decomposition of real growth according to the Production Function Approach. Potential growth is projected to gradually intensify in the coming period, supported by accelerated employment growth, a faster increase in physical capital, and gradual increases in TFP (Chart 3.12(b)).

Chart 3.11. Labor productivity and TFP



Source: SSO and MoF forecast (* forecast)

Chart 3.12. (a) Production gap, % of potential product (left) and (b) contribution to growth of factors of production, in p.p. (right)



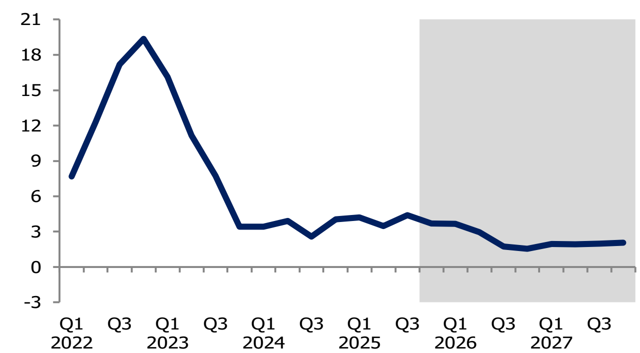
Source: MoF calculations

Method, 2014), by applying 5% depreciation rate to the accumulated capital. Average value of the share of income from capital is estimated at 40%, while the residual represents the share of labour income.

Inflation. The deceleration of the global inflation continued throughout 2025, as well. Foreign effective inflation7 in 2025 is estimated at a level of 2.9% (2.5% in last year's scenario). In 2026 it is expected to slow down to 2.3%, remaining at the same level also in 2027.

The inflation rate in the domestic economy is expected to accelerate moderately in 2025, in line with previous performance, and it would average 3.9% for the entire year (3.5% in 2024). The forecasted inflation path stems from the estimation for faster growth in food prices, in conditions of relatively inertial core inflation and some stabilization in energy prices. The inflation rate forecast in 2025, according to this scenario, is higher relative to the last year's scenario (expected inflation of 2.5%).

Chart 3.13. Inflation (y-o-y changes, in %)



Source: SSO and NBRNM calculations.

The inflation is expected to decelerate in the coming years, estimating that average annual price growth will reduce to 2.5% in 2026 and 2.0% in the period 2027 - 2028. The further decline in oil prices and basic food products on world markets in 2026 and the additional slowdown in foreign effective inflation are expected to contribute to a downward movement of domestic inflation. Thus, a slowdown in price growth in 2026 is expected in the food and core components, and energy prices are expected to continue to decrease, but with a slightly weaker intensity. Analyzing structure, core inflation remains the component with the largest contribution to headline inflation, which partly reflects the transmission of the indirect effects of the increase in food price and wages on certain categories within this price component. The gradual stabilization of the inflation in the medium term would result from anchored inflation expectations and limited pressures through the channel of domestic demand and import prices. Inflation forecast risks are enduring and regarding the external environment refer to the primary commodities prices, which are influenced by world tensions, unstable geopolitical context and climate factors. In terms of domestic factors, risks arise from possible changes in the price of electricity on the regulated market in the coming period, as well as from the growth of wages and pensions, i.e. from policies that affect domestic demand.

Monetary and exchange rate policies. Monetary policy is oriented towards preserving price stability by maintaining a stable exchange rate of the denar against the euro. In September 2024, in conditions of pronounced deceleration of the domestic inflation dynamics and favorable foreign exchange market, the National Bank began with prudential normalization of the monetary monetary policy, with the policy rate being reduced a few times from 6.3% to 5.35% in February 2025. In the following period as of October, in conditions of persistent inflation and enduring risks from the global and domestic environment, the policy rate remained unchanged. Interest rates on overnight and seven-day deposit facilities retained the level registered in December 2024, and equaled 3.95% and 4%, respectively[8].

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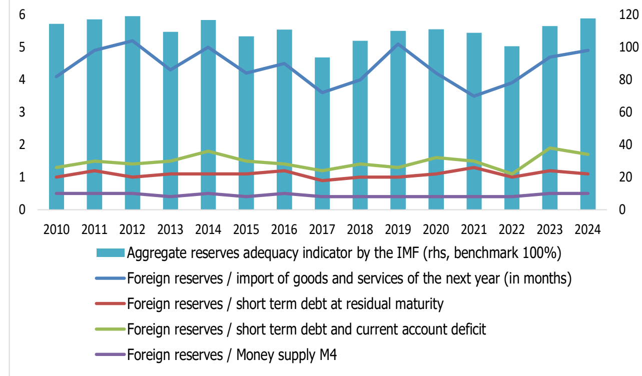
[7] The foreign effective inflation is calculated as the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The calculation of this indicator includes Bulgaria, Germany, Greece, Spain, France, Italy, Austria, Poland, Slovenia, Croatia and Serbia. Inflation in Poland and Serbia has been adjusted for the changes in the exchange rate.

[8] As of 24 December 2025 the implementation of the new operational monetary framework started. More details on the following link: https://www.nbrm.mk/ns-newsarticle-soopstenie-24122025-en.nspx .

In the third quarter of 2025, changes regarding reserve requirement were made, aimed towards stimulating the saving in domestic currency and on the long run, as well as towards additional liquidity withdrawal. The reserve requirement rate on foreign currency liabilities with a maturity of up to two years increased from 21% to 22%, while for those with a maturity of over two years from 5% to 10%. In addition, the percentage of reserve requirements in euros increased from 85% to 90%. The reserve requirement rate on domestic currency liabilities increased from 8% to 9%, while on individuals' denar deposits with a maturity of over one to two years, the rate was normalized from 0% to 9%. Most of the changes will enter into force with the reserve requirement period as of November 2025, while the use of the normalized rate on denar deposits with a maturity of over one to two years has been postponed by approximately 14 months, in order to adjust the banking practices. The new set of reserve requirements is expected to affect banks' interest rate policies, stimulating the supply of more attractive long-term denar savings instruments. Thus, it will further strengthen deposit stability and increase the structural share of denar savings. In addition, such changes enable to maintain the vigilance in the monetary policy.

Chart 3.14. Foreign reserves adequacy indicators



Source; NBRNM calculations

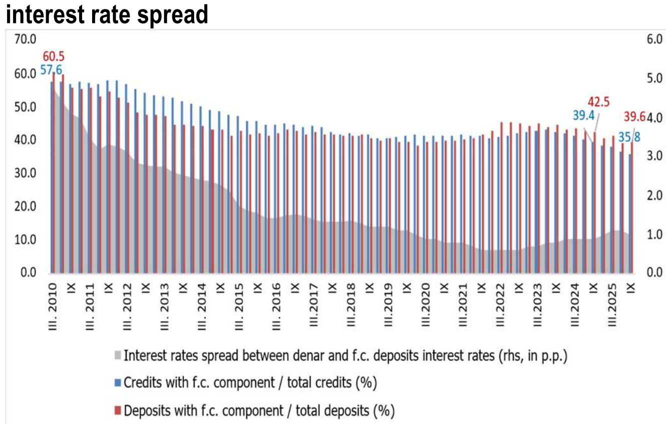
Regarding the macroprudential measures, in the third quarter of 2025, the National Bank decided to increase the countercyclical capital buffer rate by additional 0.25 percentage points for the exposure of the banks in the Republic of North Macedonia, which will amount 2% in the fourth quarter of 2026. New macroprudential measures were adopted, applicable from 1 December 2025, in order to tighten credit demand criteria. Except for individuals purchasing their first home who are provided with a housing loan with a down payment of 10%, for the rest the minimum down payment increased from 15% to 25%. The limits for first-time home buyer loans remain 55% for denar exposure and 50% for foreign currency exposure, while lower levels are set for other loans (50% and 45%, respectively). Such policy setup is supportive to the overall macrofinancial stability in the economy. The interest rate level, together with the changes in reserve requirement and macroprudential measures taken, are expected to contribute towards price stability in the medium run and maintenance of the stability of the exchange rate of the denar against the euro.

Foreign reserves have been maintained at a solid and adequate level, accompanied with a stable foreign exchange market during the year. Moreover, to deal further with the possible implications of the uncertain global environment, it is especially important to emphasize the access to foreign currency liquidity in euros which was granted to the National Bank by the European Central Bank, initially until June 2021, and then through several consecutive prolongations extended until January 2027.

In line with the applied strategy of targeting the denar exchange rate, the National Bank constantly monitors the movements of the interest rate differential for instruments in domestic and foreign currency, as well as the currency structure of deposits and loans. After a period of a decline that lasted for several years, the interest differential of the deposits in both domestic and foreign currency, in condition of monetary tightening since the end of 2022, registered a trend of gradual increase, while in 2025 it remained relatively stable. The benefits of deeuroization (more pronounced after 2009 onwards), in turn increases the credibility of the monetary policy based on stability of the exchange rate of the denar against the euro. In the period 2020-22, as a reflection of the uncertainty arising from the pandemic-driven crisis, and then, the increased inflation expectations due to the global energy crisis and geopolitical risks, there was a moderate upward movement of the share of deposits with a currency component, while since the last quarter of 2022, there is gradual decrease in the share of the foreign currency in the total private sector deposits (to 39.6% in September 2025). In addition to the changes in reserve requirement, the currency aspect was taken into consideration also in the macroprudential measures for the quality of credit demand, the implementation of which started from 1 July 2023. In addition to other ratios, the DSTI ratio (debt service-to-income) has also been introduced, which level differs for loans in denars and in foreign currency/foreign exchange clause.

From the aspect of the monetary policy instruments set, in response to the challenges of the energy crisis, since October 2022, the measure exempting banks from the reserve requirement for newly approved loans for the production of energy from renewable sources has been applied. This measure stimulates not only the lending but the transformation of the economy towards larger use of renewable sources of energy, as well.

Chart 3.15. Deposits and credits' currency structure of bank and interest rate spread



Source: NBRNM Calculations

The monetary policy in the next three years, as well, will keep the price stability, by maintaining a stable exchange rate of the denar against the euro. The results of the estimation models of the equilibrium denar real effective exchange rate[9] as of the last quarter of 2023, did not indicate major divergence from the equilibrium level, and were maintained within acceptable range in the period 2004-2023[10]. Regarding the implementation of monetary policy, it is important to indicate the results of the models for analysis of the monetary transmission, which with the latest update as of 2024, point to a relatively stable transmission in total interest rates, with the findings being similar to the previous analyses. Compared to the results of the previous assessment, the transmission of the monetary signals decelerated in lending denar and foreign currency interest rate, while no changes in interest transmission were registered in the deposit denar and foreign currency interest rate. In addition, in the specification for denar interest rates, the change in the reserve requirement rate proved statistically significant in the interest rate on denar deposits, which is in line with the expected effects of the changes made in this instrument.

Overall, after the series of global shocks, the acceleration of the domestic economy is expected to continue, amid simultaneous slowdown in inflation, which in the medium run is expected to reduce close to its historical average of 2%. The gradual stabilization of inflation in the medium term would result from anchored inflation expectations and limited pressures through the channel of domestic demand and import prices. The external position remains stable, given gradual slowdown of the current account deficit in the following three years, expected FDI inflows and further access to capital markets. Consequently, foreign reserves will remain in the safe zone in the next period as well. Further credit support of the domestic economy by banks is expected. The global risks from the external environment are still present and related primarily with the effects of protectionist policies and the pronounced uncertainty regarding future trade policies and geopolitical tensions. Inflation and

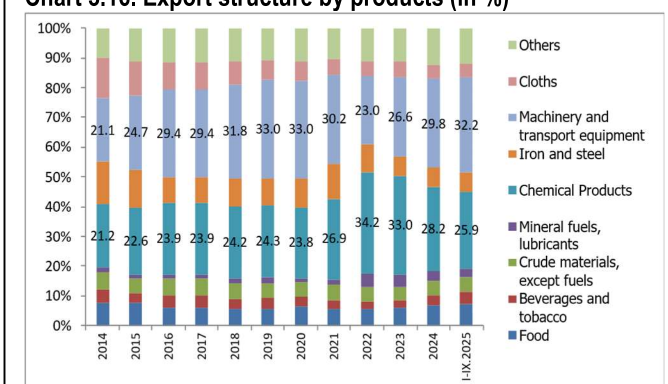
[9] Source: NBRNM. According to the BEER (behavioral equilibrium exchange rate) approach for assessment of the equilibrium denar exchange rate, which is based on a narrower definition of the real effective exchange rate and is designed on the basis of the five EU major trading partners of the Republic of North Macedonia. Models (set by different specification and evaluated by various techniques), include differential in productivity, trade openness, public consumption and total net foreign assets, as independent variables.

[10] IMF's analyses also indicate no significant deviation in the real exchange rate (IMF Staff Report 2023 Article IV Consultation, January 2024, p.62). According to the IMF methodology, deviations from the equilibrium level of +/- 5% indicate that the external position is generally consistent with the fundamentals and there is adequate policy nexus.

inflation expectations, external sector developments, import structure and effects on the foreign exchange market and foreign reserves, will be crucial for the monetary setup in future. There will be regular monitoring of the pace and structure of credit growth and of the movement of deposits and interest rate spreads. The coordination of the monetary and fiscal policy remains crucial for the following period as well. In the period ahead, the National Bank will continue to carefully monitor the trends and potential risks from the domestic and external surrounding in the context of the monetary policy setup.

Bank deposit and loan forecast[11]. Considering solid growth in the deposit base and profitability of banks, as well as support for investments by domestic companies with state funds through the Development Bank, in the first nine months of the year the lending activity recorded strong growth, which is expected to continue until the end of the year, but with more moderate dynamics (due to the effect of the comparison base), reaching a rate of 11.6% at the end of 2025. In the medium run, more moderate credit growth is expected, equaling 7.3% on average for the period 2026 - 2028, amid more moderate growth in the deposit base and the expected effects of the macroprudential measures adopted in the last quarter of this year (aimed at tightening credit standards and strengthening the banking system). Regarding deposits, as the main source of bank financing, after high growth in 2024, solid growth rates are expected throughout the forecast horison, having in mind the favorable conditions for savings, stable expectations and stronger confidence, expected growth in the disposable income of households, as well as measures taken by the National Bank to further encourage savings in domestic currency. Thus, at the end of 2025 annual deposit growth of 9.5% is expected, while in the period 2026 - 2028 an average growth of 7.6% is projected.

Chart 3.16. Export structure by products (in %)



Source: SSO

External Sector. Structural changes in the economy towards strengthening and diversification of the export sector enabled improvement of the current account balance. Namely, the current account deficit in the last ten-year period 2015-2024 averaged 2.1% of GDP. A more notable exception to the average is the deficit in 2022 of 6.1% of GDP, which is due to the global energy crisis and the expanded energy deficit, followed by a small surplus, reflecting the slowdown in energy prices. The solid current account performances existing for a longer period already, point out to strengthened economic fundamentals and greater external sector resilience to domestic and external shocks. According to the trends and estimates for the last quarter of 2025, the current account deficit for 2025 was estimated at 4.2% of GDP, which is a moderate expansion compared to the previous year.

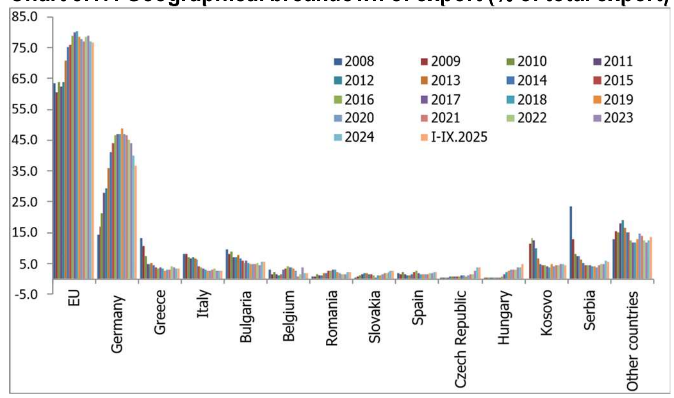
In the period January - September 2025, the total trade deficit[12] widened by 7.3% given the annual increase in the exports of 2% and simultaneous increase in imports of 3.5%. In this period, foreign trade was mainly affected by the increased uncertainty about the trade tariffs, which prompted early supply and increased activity in foreign trade in the first half of the year. The increase in exports is primarily due to the exports of the production facilities from the automotive industry in foreign ownership (exports of vehicles, electric machinery and inorganic chemical products), and then to the exports of tobacco and food. On the import side, growth was registered in almost all major product categories, including metals as the raw materials component of some export facilities in foreign

[11] The National Bank's external and monetary sectors forecasts are based on the Budget Revision for 2024 from August 2024 and the Fiscal Strategy 2025-2029 from September 2024.

[12] According to foreign trade statistics.

ownership, medical and pharmaceutical products and vehicles, and then the imports of food, iron and steel and equipment and machinery. On the other hand, total energy imports registered a slight decline, which is entirely due to the decline in imported quantities and the reduced prices of oil derivatives, amid growth of the imports of other energy, primarily electricity. The highest trade deficit in goods in the period under observation was registered in the trade with the Great Britain, while the highest surplus was reported in the trade with Germany.

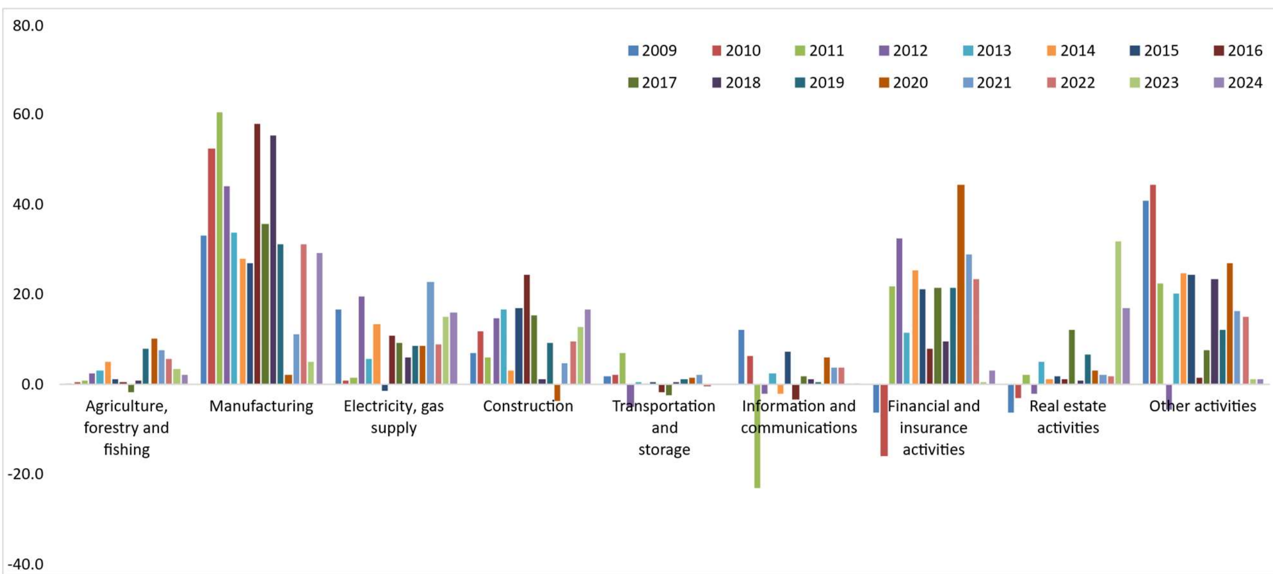
Chart 3.17. Geographical breakdown of export (% of total export)



Source: SSO

Analyzed by structure, as a result of the foreign owned new facilities in the economy, the export structure improved substantially, towards gradual increase in the share of products with higher value added in exports, mainly chemicals, and machinery and transport equipment, which reached 58% at the end of 2024. Changes in export structure correspond with foreign direct investment, which lately have been mainly concentrated in these sectors. On the other hand, there was a decrease in the share of traditional export products - iron and steel, and textile products, with their joint share declining from the dominant 40.1% in 2010 to 11.3% at the end of 2024, which confirms the larger production dispersion and the modernization of export structure.

Chart 3.18. FDI by economic activity (% of the total FDI)

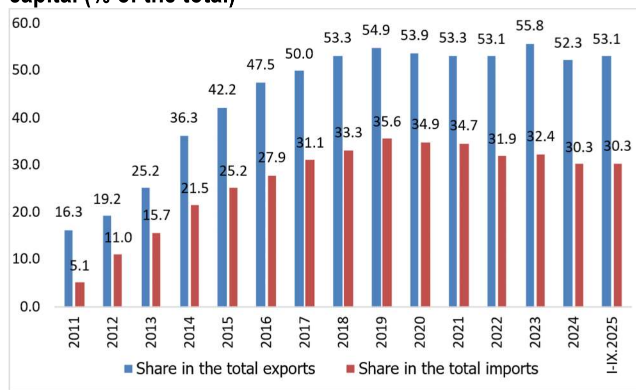


Source: NBRNM

The share of the exports of the new companies in foreign ownership in the total export of goods remained relatively high and in 2024 it equaled 52.3% (a slight decline compared to the previous year when historical peak of 55.8% was reached). In the first nine months of 2025, minor increase (of 0.8 percentage points) was registered, so currently, the share of the export of these companies in the total export equals 53.1%. Having in mind that these companies import raw materials and equipment, their share in the total import of goods changes by year, as well. However, it remains at significantly lower level in comparison with the export - a share of closely

30.3% in the total import in the first nine months of 2025[13]. The new foreign-owned companies reported a positive net foreign trade balance which averaged 1.5% of GDP in the period 2011- 2013, while afterwards, it intensified, reaching 5.3% of the GDP in 2018 and 4.6% of GDP in 2019. In the pandemic 2020 and 2021 and in conditions of contracted economy, the positive balance of these companies reduced to 4.3% and 3.1% of GDP, respectively, followed by certain stabilization in 2022, when the net export of these companies equaled 4.0% of the GDP. In 2023, these companies' net export reached 7.1% of the GDP, which is the highest historical realization, observed as a share in the GDP and analyzed in absolute amounts. After the high growth in 2023, in 2024 net exports from foreign-owned, companies got stabilized at a lower level of 4.6% of GDP (identical to the average of the previous five years). In the first nine months of 2025, net exports composed 3.6% of GDP, a slightly higher than net exports in the same period last year. As estimated, that there is still a room for strengthening the linkeages between foreign companies and local suppliers, which would additionally increase the secondary effects of FDI on the economy.

Chart 3.19. Exports and imports of companies with foreign capital (% of the total)



Source: NBRNM and SSO

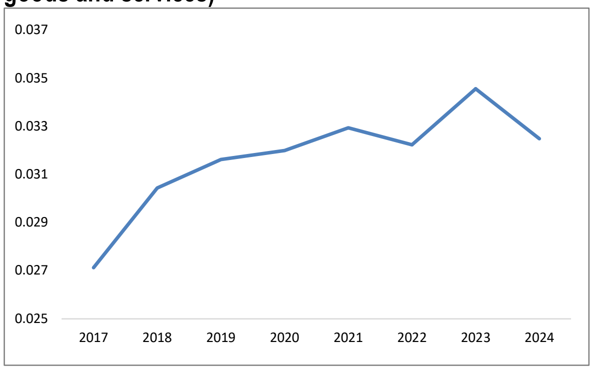
The analysis of geographic distribution of the exports validates the EU dominance as the major export destination, which in the period January - September 2025 imported around 76% of the Macedonian exports, which is a significant increase compared to 2008, when about 64% of the Macedonian exports was oriented towards EU. Within EU, in the last years, the share of the export to Germany registered considerable increase (the peak of 48.6% was reached in 2019). Positive developments in 2024, annually, were evidenced in the exports to Bulgaria, the Czech Republic, Romania and France (most of them at lower initial share), while a moderate decrease was recorded in the share of exports to Germany (mainly due to the unfavorable economic context and the announced US tariffs for the automotive industry), Belgium and Greece. In the period January - September 2025, the total trade with the EU accounted for closely 60% of the total trade of the Republic of North Macedonia, which considering minor rise in the export and simultaneous decline in the import of goods from the EU, resulted with a surplus, which was by 27.7% higher compared to the same period last year.

In the period January - September 2025, the real effective exchange rate (REER)[14] of the denar deflated by CPI registered a small annual depreciation of 0.2%, while excluding primary commodities, the denar REER deflated by the same price index registered appreciation of 0.6%, compared to the same period last year. Such movements in the two indices were registered amid moderate appreciation of the nominal effective exchange rate of the denar against the currencies of some of the trade partner countries and a favorable ratio in relative prices. In conditions of slower wage growth in the economy compared to productivity growth, in the second quarter of 2025 unit labor costs recorded a moderately slower annual growth of 6.1% (8.5% in the previous quarter).

13 Source: NBRNM. According to the foreign trade statistics (customs declarations), where export of goods is presented on f.o.b. basis, and import of goods on c.i.f. basis.

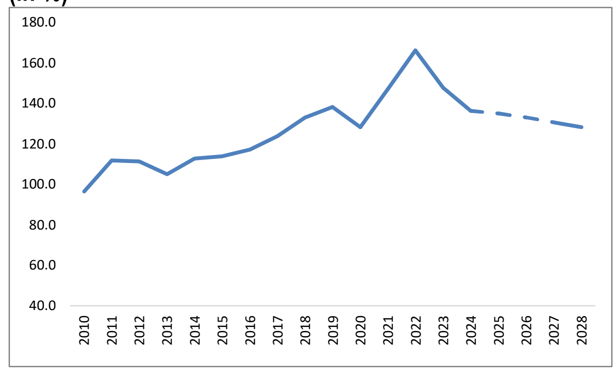
14 NBRNM calculations. Within the REER, the calculation of the nominal effective exchange rate and relative prices includes 15 major trade partners of the Republic of North Macedonia by their share in foreign trade in the period 2010-2012 and a base period 2015.

Chart 3.20 Export market share (% of the world export of goods and services)



Source: IMF, NBRNM.

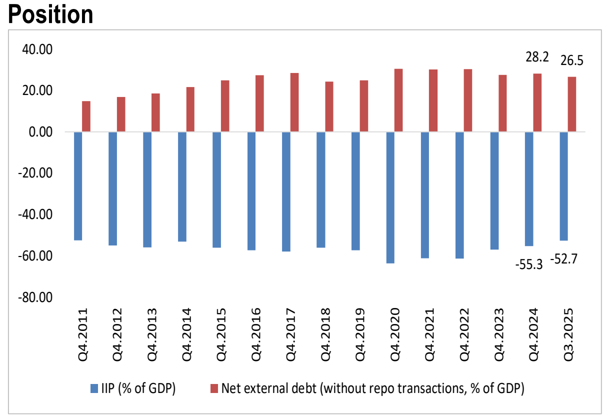
Chart 3.21. Export and import of goods and services / GDP (in %)



Source: SSO; NBRNM forecast for the period 2025-2028.

The export market share of the economy in the world export has been increasing since 2017, with a moderate growth deceleration during pandemic years and the prolonged global crisis, slight decline in 2022 and its acceleration again in 2023. In 2024, the market share of the global export once again registered moderate decline, in conditions of slowdown of the export of goods and services to abroad and simultaneous increase in the world export of goods and services. The trade openness of the Macedonian economy is generally high, with a pronounced upward trend in the post-pandemic 2021 - 2023 period (about 166% of GDP in 2022 and 148% of GDP in 2023). In 2024, the trade-to-GDP ratio amounted to 136% of GDP, in 2025 it is estimated at about 135% of GDP, and it will be maintained at similar levels in the following three years.

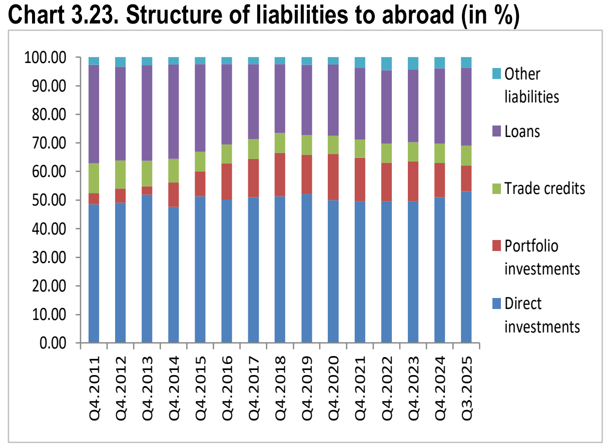
Chart 3.22. Net debt and Net International Investment Position



Source: NBRNM

International investment position and external debt. At the end of the third quarter of 2025, the net negative international investment position (IIP) in nominal terms was broader by 0.9% compared to the end of 2024, amid higher increase in international liabilities compared to the increase in international assets. The negative IIP widened mainly due to lower positive net position of the central bank, amid moderate narrowing of the negative net position of the government[15] as well as a small narrowing of the net liabilities with the banking sector and other sectors of the economy. In relative terms, in September 2025, the negative IIP, net, was 52.7% of the estimated GDP, and compared to the end of 2024, it narrowed by 2.5 p.p. of GDP.

Chart 3.23. Structure of liabilities to abroad (in %)



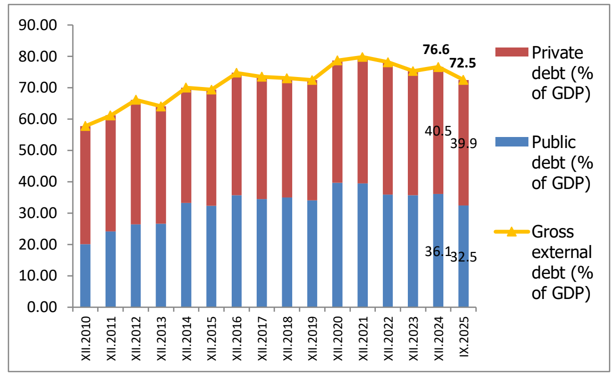
Source: NBRNM

[15] Government sector includes: central government, local government and social security funds.

Given the significant share of foreign direct investment as external liabilities (about 50% in recent years), typical for the converging countries, the analysis of external position also needs to consider other indicators, such as net external debt, which includes only net debt instruments. At the end of the third quarter of 2025, net external debt[16] accounted for 26.5% of the estimated GDP, which is a decline of 1.7 p.p. of GDP compared to the end of 2024, which is due to the decrease in net debt in the private sector, given the moderate increase in the net debt in the public sector.

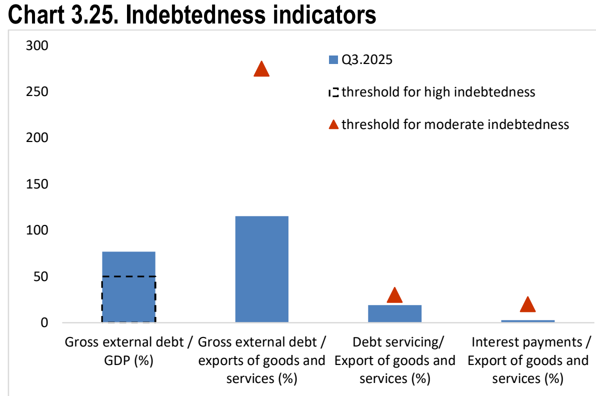
At the end of the third quarter of 2025, **the gross external debt** composed 72.5% of GDP (without repo transactions of the NBRNM). Compared to the end of 2024, gross debt decreased by 4.2 p.p. of GDP. This reduction is mainly due to the reduced debt of the public sector (by 3.6 p.p. of GDP), given simultaneous moderate decrease of the private sector debt, as well (of 0.5 p.p. of GDP). The long-term debt, occupying nearly 75%, is still predominant in the debt structure.

Chart 3.24. Gross external debt



Source: NBRNM.

Chart 3.25. Indebtedness indicators



Source: NBRNM calculations.

At the end of the third quarter of 2025, the coverage of short-term debt by residual maturity (excluding repo) with foreign reserves was 1, indicating solid liquidity in terms of external payments. The analysis of foreign indebtedness[17] indicates a low indebtedness based on three indicators (gross external debt, debt servicing and repayment of interest, each relative to export of goods and services), whereas only gross debt-to-GDP indicates high indebtedness. However, the level of the gross external debt excluding trade credits and intercompany debt (as less risky flows) is lower and indicates moderate indebtedness.

Forecasts of the Balance of Payments[18]. Notwithstanding the estimates that global growth in 2025 will remain below pre-pandemic levels, global economic activity in 2025 is assessed as relatively resilient, despite enduring geopolitical tensions and increased uncertainty related to trade policies. According to the latest forecasts, the increase in the foreign effective demand[19] for the Macedonian economy is estimated at 0.7% in 2025, while in 2026 it is expected to accelerate to 1.4% (1.5% and 1.7%, respectively, in last year's scenario). Accordingly, the growth trajectory has been maintained, with the downward revisions mainly reflecting the prospects for weaker growth of the German economy as our significant trading partner. The growth of foreign demand for 2027 is expected to accelerate further to 1.8%.

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[16] Excluding the liabilities of the monetary authority based on repo agreements.

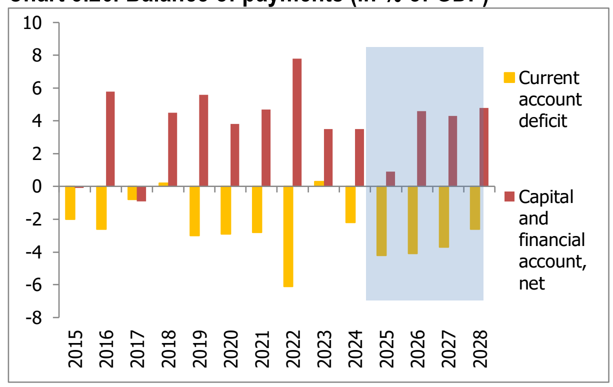
[17] Tailored use of the World Bank method, where the calculation of the indicators is based on three-year moving averages of GDP and exports of goods and services, as denominators. The methodology also defines criteria of indebtedness, as reference values for indebtedness level.

18 Balance of payments forecasts and monetary and credit aggregates are based on SSO's GDP estimates for 2021 and the first two quarters of 2022.

19 Foreign effective demand is calculated as the weighted sum of GDP indices of the major trading partners of the Republic of North Macedonia. The calculation of this index includes Germany, Greece, Italy, the Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.

The current account deficit for 2025 is estimated at 4.2% of the GDP, which means a widening compared to the preceding year. The estimated deficit for 2025 is higher than forecasted in the macroeconomic scenario presented in the last year's ERP (2.3% of GDP). The latest external sector estimates suggest that in the following three years it would decelerate gradually and come closer to the multiyear average. In the next three years, the needs for external funding are expected to be covered via external borrowing and foreign direct investments. Financial inflows are expected to enable increase and maintenance of foreign reserves at an adequate level, with import coverage of over 4 months of the next year.

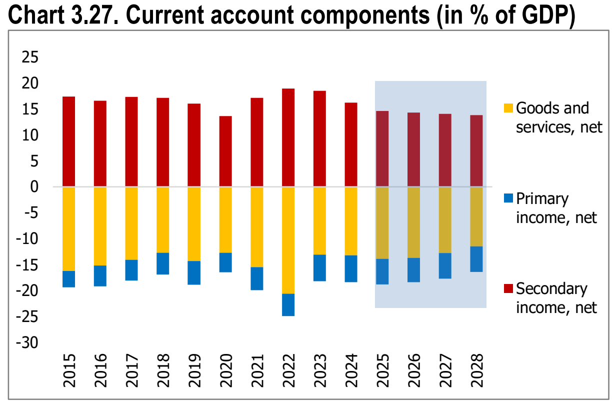
Chart 3.26. Balance of payments (in % of GDP)



Source: NBRNM. Estimate for 2025 and forecast for 2026-2028.

Taking into considerations the developments in the trade in goods and services in the recent period, for this year, the deficit in goods and services is expected to increase slightly to 13.9% of GDP (in 2024, a deficit of 13.2% of GDP was registered). This assessment is based on the estimated smaller surplus in services, influenced by more intensive construction activities related to road corridors and lower net travel inflows. On the other hand, a slight decrease in the deficit in the trade of goods is estimated, while the deficit in the non-energy and energy trade balances narrowed, both. The estimated deficit in 2025 is close to the expectations of the last year's scenario (13.7% of GDP). In the following three years, the trade deficit in goods and services is expected to slow down moderately from 13.7% of GDP in 2026 to 11.5% of GDP in 2028. This forecast grounds on the expectations for gradual recovery in foreign effective demand, with an expected further gradual narrowing of the energy and non-energy trade deficits. The surplus in services would improve slightly in the next three years, provided that road infrastructure projects continue.

Chart 3.27. Current account components (in % of GDP)



Source: NBRNM. Estimate for 2025 and forecast for 2026-2028.

A significant part of the trade deficit will still be financed by inflows of secondary income (which primarily reflects the net purchase on the currency exchange market as the main component of private transfers). After higher levels in the post-pandemic period and normalization of net inflows from private transfers that started in 2024, their level continued to decelerate in 2025, being estimated at 14.6% of GDP (in the previous year 16.2% of GDP). Their slight downward trend is expected to continue in the next three years (to 13.8% of GDP in 2028). The primary income deficit for 2025 is estimated at 4.9% of GDP, and it is expected to be maintained at similar levels in the next three years, in line with the forecasts for solid capital income from foreign investors.

With such current account forecast, the estimated deficit of 4.2% of GDP in 2025 is mainly due to the lower surplus in services and the smaller net inflows in secondary income. In the next three years, the current account deficit would slow down gradually, to the level of 2.6% of GDP in 2028, amid gradual moderate narrowing of the trade deficit as opposed to the expected moderate slowdown in private transfers. Moreover, the gradual stabilization of the global situation is expected to produce positive effects, in terms of both the supply chains and the further positive effects of companies with foreign capital.

The inflows on the financial account will mainly come from the expected FDI and the expected external public and private debt. In 2025, most inflows came from the FDI and the external long-term government loans. In conditions of global uncertainty, trade wars and investor restraint, in 2025 FDI are estimated at 3% of GDP. The gradual stabilization of the global economy is expected to contribute to stable investors' perceptions, whereby FDI in the next three years is expected to remain at a level of around 4% of GDP. Such a forecast is underpinned by the ongoing inflows on this basis, further implementation of the policies to attract new FDI and reforms for improving business environment. Consequently, in the period 2026 - 2028, the financial account is expected to register net inflows of just above 4% of GDP, annually (in 2025 the net inflows are below 1% of GDP, amid smaller inflows from abroad and outflow for repayment of a due Eurobond). The forecasted movements on current and financial accounts would ensure additional accumulation of foreign reserves in the next three-year period on a cumulative basis and further maintenance of coverage of over 4 months of average imports from each coming year.

Financial Sector. Maintaining the stability of the financial system, its further development and increasing intermediation remain to be the main priorities in the area of the financial system. This will be achieved through the following undertaken and future activities:

- In February 2025, amendments to the Law on Payment Services and Payment Systems (“Official Gazette of the Republic of S. Macedonia” No. 37/25) were adopted, through which the previously noted recommendations were implemented in the process of the country's integration into the SEPA area. These amendments further specified the provisions of the Law in order to achieve full compliance with the Payment Services Directive (PSD 2), and in accordance with the recommendations of the European Commission given in the pre-application process for the country's accession to the SEPA area, and further harmonized the national legislation with the latest amendments to the Payment Services Directive (PSD 2), which provide for conditions that payment institutions and electronic money institutions need to meet in order to be granted access to payment systems
- In July 2025, amendments were adopted to the Law on Payment Services and Payment Systems ("Official Gazette of the Republic of S. Macedonia" No. 144/25) which amended provisions of a national nature, i.e. the deadline for establishing the single account register (SAR) was extended to December 1, 2026 at the latest and the deadline for establishing the electronic system for forced collection, to November 2026 at the latest.
- During 2026, A new Law on Accounting is planned to be adopted, which will harmonize national legislation with European Union legislation in this area, while amending the legal requirements related to accounting that were previously part of the Company law.
- Amendments to the Law on Banks have been adopted and published in the Official Gazette of the Republic of North Macedonia No. 37/25. The amendments are aimed at harmonization with the Law on Payment Services and Payment Systems, particularly in the part concerning the operations of savings houses, thereby enabling an expansion of the activities that a savings house may perform, the required amount of own funds that savings house must hold was increased from EUR 250,000 (in denar equivalent) to EUR 1,000,000 (in denar equivalent), and certain requirements related to corporate governance were also strengthened. Taking into account the market position of banks and the number of consumers who use banks products and services, the need arose to strengthen the regulatory framework governing banks operations, as well as to increase the level of consumer protection by ensuring fair and equal treatment of every consumer.
- Amendments to the Law on Foreign Exchange Operations have been adopted and published in the Official Gazette of the Republic of North Macedonia No. 37/25. The amendments to the Law on Foreign

Exchange Operations are aimed at harmonization with the Law on Payment Services and Payment Systems, in order to ensure the smooth execution of current and capital transactions. At the same time, the provisions of the Law on Foreign Exchange Operations are being harmonized with provisions of the Law on the Customs Administration and the Law on the Prevention of Money Laundering and Terrorist Financing, in order to cover a larger number of bearer negotiable instruments and means of payment that may be encompassed by the term “physically portable means of payment” in relation to the term “cheques.”

- In the course of 2026, it is planned to adopt amendments and additions to the Law on the Deposit Insurance Fund, which will enable harmonization of its provisions with the Law on the Resolution of Banks. The goal is to establish a clear legal framework for the management of the Bank Resolution Fund, to regulate the financing and use of its funds, as well as to provide support to bank resolution processes. The amendment of the law provides legal certainty, increases the stability of the financial system and enables more effective protection of deposits and public interest in cases of financial instability.
- For 2026, an analysis of the existing legal framework in the field of insurance is planned, with the aim of improving it where a need for such improvements is identified.
- In 2026, the adoption of a Decision on the 25th issuance of denationalization bonds is envisaged, based on which persons whose decisions become final in the period from 01.01.2025 to 31.12.2025 will exercise their right and be granted compensation in the form of bonds.
- In the area of the capital market, during 2026, it is planned to adopt amendments to the existing legislation Law on Financial Instruments and Law on Prospectus and Transparency Obligations for Issuers) with the aim of its improvement and more efficient implementation for stakeholders (the stock exchange, the depository and brokerage houses).

Financial companies. Financial companies on the financial market in Republic of North Macedonia operate pursuant to the Law on Financial Companies ("Official Gazette of the Republic of Macedonia", nos. 158/10, 53/11, 112/14, 153/15 and 23/16 and "Official Gazette of the Republic of North Macedonia", nos. 173/22 and 153/23). Financial company may perform one or more of the following financial activities: granting loans; factoring and issuing guarantees. As of 27th August 2025 inclusive, 26 financial companies were active on the financial market in the Republic of North Macedonia, which represents a decrease of one company compared to the previous year. Domestic capital has the largest share of 52.5%in the ownership structure of financial companies, and foreign capital accounts for 47.5%.

In the structure of total assets in the financial sector in the Republic of North Macedonia, financial companies have a small share of around 1%. On 30th June 2025, total assets of financial companies amounted to Denar 11.8 billion (EUR 192 million), increasing by 16.8% compared to 30th June 2024, mostly as a result of the increase in financial placements.

Number of newly concluded contracts in the first half of 2025 (99.8% out of which were approved loans) was 228,870, being an increase by 6.9% compared to the first half of 2024. The value of the concluded contracts, in this period, was Denar 8.2 billion (EUR 133 million), increasing by 2.4% compared to the first half of 2024.

In the first six months of 2025, financial companies generated profit of Denar 1.1 billion (first half of 2024: profit of Denar 980 million).

Financial leasing providers. Financial leasing providers (leasing companies) on the financial market in the Republic of North Macedonia operate pursuant to the Law on Leasing ("Official Gazette of the Republic of

Macedonia", nos. 04/02, 49/03, 13/06, 88/08, 35/11, 51/11, 148/13, 145/15, 23/16 and 37/16 and "Official Gazette of the Republic of North Macedonia", no. 173/22).

As of 30th June 2025, 7 leasing companies were active on the financial leasing marke. As for the ownership structure of leasing sector, domestic capital has the largest participant with 51.8%, while foreign capital participates with 48.2%.

As for the structure of total assets in the financial sector in the Republic of North Macedonia, leasing companies had a small share of around 1%. As of 30th June 2025, the assets of the leasing sector amounted to Denar 14.5 billion (EUR 236 million), increasing by 11.6% compared to the same period of the previous year. Thereby, the two largest leasing companies accounted for 77% of the total assets.

Number of newly concluded contracts in the first half of 2025 was 1,676 or an increase of 17% compared to the same period last year. Value of concluded contracts in the same period amounted to Denar 3.6 billion (EUR 59 million), being an increase of 16.3%. Legal entities retained the main position in the structure of newly concluded contracts (75.2%). Observed by the subject-matter of leasing, most of the newly concluded contracts were contracts for passenger vehicles (82.1%).

Leasing companies in the first half of 2025 generated a profit amounting to Denar 96.4 million (first half of 2024: profit amounting to Denar 78.8 million).

3.3 Alternative Scenarios and Risks

Alternative Scenarios. Two alternative scenarios will be presented below, related to some of the risks mentioned

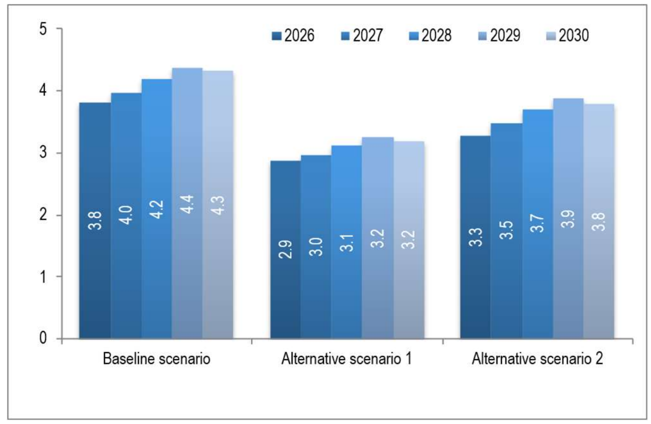
The first alternative macroeconomic scenario assumes that downside risks will materialise, related to geopolitical tensions, specifically the conflicts in Ukraine and the Middle East, economic activity in key trading partners, as well as domestic risks, such as potential delays in the implementation of major infrastructure projects. Under this scenario, both export activity and industrial production, particularly in sectors strongly integrated into global supply chains and closely linked to international trade flows, are expected to grow more slowly. Consequently, real export growth is projected to be 1.3 p.p. lower on average annually than in the baseline scenario, with average annual growth of 4.1% over the period 2026–2030.

This scenario also assumes adverse effects on capital inflows in the form of foreign direct investment, leading to slower growth in gross investments over the medium term, due to weaker investment in construction, machinery, and equipment, as well as slower growth in the import of capital goods. As a result, real gross investment is projected to grow by an average of 5.4% annually over the forecast period, compared to 7.2% under the baseline scenario. The slower growth in gross investment is mainly driven by weaker private investment, with public investment contributing to a lesser extent.

Effects on both private and public consumption are also expected. Real growth of public consumption is projected at 0.8%, while real growth of private consumption is projected at 2.1% annually, 0.6 p.p. lower than in the baseline scenario. Lower growth in both exports and domestic demand implies slower import growth, which is projected to increase by 3.5% annually over the forecast period, compared to 4.7% under the baseline scenario. These adjustments in GDP components imply average annual economic growth of 3.1% over the period 2026–2030 (Chart 3.28).

The second alternative macroeconomic scenario is associated with the risk of a weaker contribution of domestic demand to economic growth, in the context of a lower level of implementation of infrastructure projects and capital expenditures, as well as weaker effects from support to enterprise investment activity. Under these circumstances, real gross investment is expected to increase by an average of 5.4% annually over the forecast period, which is 1.8 p.p. lower than projected under the baseline scenario, with most of this effect estimated to be due to public investment. Weaker investment growth also implies lower real import growth, which under this scenario is projected to increase by an average of 4.5% annually over the forecast period, compared to the projected growth of 4.7% under the baseline scenario. The effects on exports during this period are projected to be slightly lower, resulting in net exports having a neutral contribution to economic growth in the period 2026–2030. Consequently, under this scenario, economic activity is projected to grow at an average annual rate of 3.6% over the period 2026–2030, i.e., 0.5 p.p. lower than in the baseline scenario (Chart 3.28).

Chart 3.28. Economic growth, baseline and alternative scenarios



Source: MoF forecast

Regarding the inflation rate, slower economic growth under both alternative scenarios implies lower demand-driven inflationary pressures compared to the baseline scenario.

The effects of the alternative scenarios on the budget deficit are presented in section 4.7. Sensitivity Analysis.

Risks. The baseline macroeconomic scenario is accompanied by predominantly downside risks relative to projected economic growth. Conflicts in Ukraine and the Middle East persist despite ongoing efforts to end hostilities, creating further uncertainty. Recent US tariffs have raised concerns about a possible escalation of a trade war, which could significantly disrupt the flow of goods, capital, and labor, with adverse effects on supply chains and the external environment. While the direct impact of these tariffs on the Macedonian economy is limited, indirect effects could be significant, since they also apply to EU countries, which account for approximately 77% of the country's total exports. Weakened international confidence may delay corporate decisions regarding planned investments. Domestically, delays in implementing capital investments and reforms may postpone the anticipated acceleration of economic activity. Risks to the inflation projection are mainly linked to movements in primary commodity prices, particularly increases driven by geopolitical factors and supply chain disruptions.

The main risks from the external environment are related to the effects of protectionist policies and the pronounced uncertainty regarding future trade policies. Namely, additional escalation of the protectionist measures, including non-tariff barriers, could limit investment, hamper supply chains and slow down the productivity growth. In addition, fiscal vulnerabilities and financial market weaknesses combined with rising borrowing costs could lead to increased risks of government debt rollover. On the other hand, a possible reduction of trade policies uncertainty, as well as faster productivity growth driven by the development of artificial intelligence, could have a positive impact on growth.

Regarding the domestic environment, the realization pace of the infrastructure projects remains a key growth factor in both short and medium term. In addition, the progress in the EU accession process, as well as the EU Growth Plan for the Western Balkans are still assessed as factors with a potentially positive impact in the medium term. The accession to the Single Euro Payments Area (SEPA) in 2025 supports the market integration of the country by eliminating the financial flows barriers with the EU member states. Joining SEPA allows for cheaper, faster and more efficient payment system, which could ultimately contribute to greater competitiveness of the domestic corporate sector.

Significant risk in relation to the presented scenario for the exports in the next period includes the uncertainty about the dynamics of recovery of the countries - major trading partners (especially Germany, where about 40%

of the Macedonian export is placed). Any weaker external demand may have adverse effects on the presence of domestic exporters in foreign markets. The weaker global outlook for growth and the potential financial market instability could increase investors’ risk aversion and consequently, risks of lower capital inflows of non-debt financing or possible capital outflows for funding parent companies. In addition, the movement of the world prices of primary commodities is accompanied by increased uncertainty, with possible effects on both domestic inflation and export prices. The reduced energy prices, together with the more efficient and economical use of energy and the increased domestic production in the coming period, are expected to gradually narrow the energy deficit. The further diversification of exports and the improved export performances is conducive to strengthening the economic resilience to external shocks.

After the hight post-pandemic levels, the commenced normalization of the net inflows from secondary income (within their scope, the net purchased currency on the currency exchange market) is expected to continue at moderate pace also in the next three years. Following global uncertainty caused by trade wars and investor restraint, net FDI inflows are expected to increase moderately from the next year to the average moderate levels, taking into account the continuity of these inflows, as well as further implementation of the policies to attract FDI.

The inflation forecast is succumbed to external risks and are associated with primary commodities prices, which are influenced by the trade tensions globally, unstable geopolitical context and climate factors. In terms of domestic factors, risks arise from possible changes in the price of electricity on the regulated market in the coming period, as well as from the growth of wages and pensions, i.e. from policies that affect domestic demand.

The aforementioned risks to the macroeconomic scenario indicate a need for constant monitoring of the changes in the external and domestic economic environment in the period ahead and a need for the policy makers to take timely and adequate measures.

4. Fiscal Framework

4.1 Fiscal Strategy and Medium-Term Objectives

Public Finance Management System in the Republic of North Macedonia is regulated under the Organic Budget Law. Pursuant to the Organic Budget Law, 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. The Fiscal Strategy 2026-2030 is focusing on maintaining macroeconomic stability and supporting economic activity through gradual fiscal consolidation and improvement in public finance management, aimed at achieving a moderate level of indebtedness.

Key elements of the fiscal strategy will comprise disciplined fiscal policy, reduced grey economy and higher budget revenue collection, as well as fiscal consolidation.

In parallel to the commitment for fiscal consolidation and budget savings, economy will continue to be supported by investing 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.

The implementation of disciplined fiscal policy plays a key role in reducing non-essential expenditures and using public funds more efficiently and effectively. Herewith, the capital expenditure shall achieve average share of 5% of GDP, thus contributing to economic growth.

For maintaining fiscal sustainability in medium term, the fiscal projections contain framework for achieving the numerical fiscal rules.

Fiscal policy envisages gradual fiscal consolidation, thereby, the projected budget deficit is reduced as a percentage share of GDP at 3.5% in 2026, 3% in 2027, 3% in 2028 and 2.8% in 2029, thus achieving fiscal consolidation in medium term.

In the period 2026–2030, tax policy will be aimed at stimulating economic growth and increasing the well-being of citizens. The goal is to ensure an efficient, transparent and modern tax system that will be based on advanced digital technologies and innovations in taxation, to achieve accelerated, inclusive and sustainable economic growth.

In this regard, by reducing the shadow economy, increasing the collection of budget revenues and digitalizing tax procedures, an efficient system will be established in which everyone will fulfill their tax obligations fairly and in accordance with the principle of equality. This will enable the maintenance of low tax rates, and at the same time a larger amount of funds for capital investments, tax exemptions, subsidies and incentives for the operation of the domestic private sector and citizens.

The competencies assumed in several areas by municipalities have increased the administrative and fiscal capacity and strengthened the capacities for managing a larger volume of financial resources. With the successful administration and collection of own revenues, the process of increasing the municipalities' own revenues and strengthening the capacity to manage funds, better execute the transferred competencies and manage financial assets and other resources continues. For advancing fiscal decentralization, in the period to come, plenty of activities and measures are planned for:

- further improvement of fiscal capacity of municipalities and increasing their revenues,
- strengthening fiscal discipline and
- increasing transparency and accountability in the work of municipalities.

The goal of this process is to achieve a higher quality of public services, a higher level of economic development and an improvement in the standard of living.

The public debt management policy will be aimed at providing the necessary funds to finance the budget deficit, to repay debts that are due as a result of borrowing from previous years and for project financing, without causing an unjustified increase in debt to a level that could threaten the stability of the economy and the economic growth of the country.

Table 4.1. General government budget

	million denars									% of GDP								
	2022	2023	2024	2025	2026*	2027*	2028*	2029*	2030*	2022	2023	2024	2025	2026	2027	2028	2029	2030
Central budget																		
Income	124,185	142,731	146,411	184,141	180,016	200,711	219,786	240,947	263,656	15.2	15.8	15.2	18.0	16.2	17.0	17.5	17.9	18.4
Expenditures	157,700	181,848	190,207	222,806	217,939	235,202	256,670	277,721	302,255	19.3	20.1	19.7	21.8	19.7	19.9	20.4	20.7	21.1
Budget balance	-33,515	-39,117	-43,796	-38,665	-37,923	-34,491	-36,884	-36,774	-38,599	-4.1	-4.3	-4.5	-3.8	-3.4	-2.9	-2.9	-2.7	-2.7
Budget funds																		
Income	94,795	104,051	126,180	132,917	149,369	155,344	159,907	164,602	169,449	11.6	11.5	13.1	13.0	13.5	13.2	12.7	12.3	11.8
Expenditures	96,044	106,371	124,346	135,651	150,686	156,615	161,091	165,690	170,509	11.8	11.8	12.9	13.3	13.6	13.3	12.8	12.3	11.9
Budget balance	-1,249	-2,320	1,835	-2,735	-1,317	-1,271	-1,184	-1,088	-1,060	-0.2	-0.3	0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1
RSM budget (Central budget and funds)																		
Income	218,980	246,782	272,591	317,058	329,385	356,055	379,693	405,549	433,105	26.8	27.3	28.3	31.0	29.7	30.2	30.2	30.2	30.2
Expenditures	253,744	288,219	314,553	358,457	368,625	391,817	417,761	443,411	472,764	31.1	31.9	32.6	35.1	33.3	33.2	33.2	33.0	33.0
Budget balance	-34,764	-41,437	-41,962	-41,400	-39,240	-35,762	-38,068	-37,862	-39,659	-4.3	-4.6	-4.4	-4.0	-3.5	-3.0	-3.0	-2.8	-2.8
Local government budget																		
Income	38,716	47,375	50,165	66,292	66,618	68,995	71,777	74,565	77,459	4.7	5.2	5.2	6.5	6.0	5.8	5.7	5.5	5.4
Expenditures	38,911	44,309	48,884	65,752	66,618	68,995	71,777	74,565	77,459	4.8	4.9	5.1	6.4	6.0	5.8	5.7	5.5	5.4
Budget balance	-195	3,066	1,281	540	0	0	0	0	0	0.0	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Budget of the general government (Consolidated Budget of RSM and Budget of municipalities)																		
Income	257,696	294,157	322,757	383,350	396,003	425,050	451,470	480,114	510,563	31.6	32.6	33.5	37.5	35.7	36.0	35.9	35.7	35.6
Expenditures	292,654	332,528	363,436	424,209	435,242	460,811	489,537	517,975	550,222	35.9	36.8	37.7	41.5	39.3	39.1	38.9	38.6	38.4
Budget balance	-34,958	-38,371	-40,679	-40,858	-39,239	-35,761	-38,067	-37,861	-39,659	-4.3	-4.2	-4.2	-4.0	-3.5	-3.0	-3.0	-2.8	-2.8

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

4.2 Budget Execution in 2025

The realization of revenues and inflows of the Budget of the Republic of North Macedonia is within expectations for this period of the year, and the payments of expenditures are being realized regularly and on time. In the period January - October 2025, total revenues were realized in the amount of Denar 274,447 million (75.7% compared to those planned with the Reallocation for 2025), i.e. higher by about 4.3% compared to the revenues collected in the analyzed period of the previous year. Of this amount, Denar 157,162 million are tax revenues, which are an increase of 3.3% compared to last year. VAT revenues were collected in the amount of Denar 71,462 million and are higher by 2.3% compared to the same period in 2024. They dominate the structure of tax revenues with 45.5%. Higher revenues compared to the analyzed period last year were also realized from profit tax by 4.3%, personal income tax by 2.3%, excise duties by 4.5% and import duties by 10.6%.

Revenues from social contributions up to this period of the year amounted to 93,760 million denars. This is 2.4% more than the corresponding period in 2024. Denar 63,391 million were realized based on pension insurance, and Denar 26,482 million based on health insurance.

In the period January - October 2025, non-tax revenues amounted to Denar 16,519 million, which are 7.8% higher than the same period in 2024. Capital revenues amounted to Denar 2,160 million, realized from the sale of building land and social housing and dividends. Budget users realized Denar 4,846 million based on donations from international multilateral and bilateral cooperation.

The expenditures of the Budget of the Republic of Macedonia in the period January - October 2025 were realized in the amount of Denar 300,979 million (74.6% compared to those planned with the Reallocation for 2025), i.e. 1.4% more compared to the same period last year.

Within this framework, current expenditures amounted to Denar 279,413 million or 0.6% more than in the same period in 2024. During this period, Denar 39,432 million were for salaries and allowances for employees in institutions that are budget users, while expenditures for goods and services amounted to Denar 18,147 million.

Table 4.2. Budget Execution as of October 2025 (in million denars)

	Reallocation 2025	Realization January-October 2025
TOTAL REVENUES	**364,877**	**274,447**
Taxes and Contributions	**319,196**	**250,922**
Taxes	202,100	157,162
Contributions	117,096	93,760
Non Tax Revenues	**31,108**	**16,519**
Capital Revenues	**2,830**	**2,160**
Foreign Donations	**11,743**	**4,846**
TOTAL EXPENDITURES	**406,227**	**300,979**
Current Expenditures	**362,172**	**279,413**
Wages and Allowances	49,175	39,432
Goods and Services	27,599	18,147
Transfers	265,441	204,193
Interest	19,957	17,641
Capital Expenditures	**44,056**	**21,566**
BUDGET BALANCE	**-41,350**	**-26,532**
FINANCING	**41,350**	**26,532**
Inflow	**123,086**	**106,435**
Domestic	59,664	42,560
Foreign	40,361	36,197
Deposits	23,061	27,678
Outflow	**81,736**	**79,903**
Domestic	17,008	14,612
Foreign	49,153	47,996
Outflows per quarantees	200	5,556
Other outflows per given loans to financial institutions	15,375	11,739

Source: Ministry of Finance

The largest share in the structure of current expenditures is held by transfers, for which Denar 204,193 million were paid in this period. The state's obligations were regularly serviced based on fulfilling the rights to guaranteed social protection of the population (cash benefits for vulnerable categories of citizens, as well as benefits based on child and parental allowances) and Denar 12,343 million were realized for that purpose. 88,884 million denars were allocated for regular pension payments, Denar 41,143 million for financing health services and benefits, while Denar 1,589 million were allocated for the payment of unemployment benefits through the Employment Agency. Denar 23,702 million were transferred from the Budget of the Republic of North Macedonia to municipalities as block grants for financing the transferred competencies, as well as earmarked grants for financing material costs in local public institutions. Denar 3,977 million were also transferred from the revenue generated from value added tax. As of October, most of the subsidies in the field of agriculture have been paid, i.e. about 80% of those planned for the entire year.

The realization of capital expenditures in the period January - October 2025 amounts to Denar 21,566 million or 12.7% higher than in the same period in 2024.

In the period January - October 2025, the realized deficit amounted to Denar 26,532 million or 2.6% of the projected GDP for 2025.

4.3 Budget Plan for 2026

The fiscal consolidation envisaged in the 2026 Budget represents one of the priority objectives of the economic and fiscal policy for 2026, i.e. through a credible and gradual path of fiscal discipline and responsibility, the realization of strategic priorities and long-term growth potential would be achieved.

Through this process, the level of the budget deficit and the level of public debt would strive to be aligned with fiscal criteria and the objectives of the European Union. Additionally, continuous support for economic growth and improvement of the living standards of citizens would be provided at the national level.

The fiscal projections for 2026 are designed and consistent with the adopted Fiscal Strategy 2026-2030, i.e. the projected level of the budget deficit of 3.5% of GDP remains. The projections for 2026 are based on the budget requests from budget users, and guided by the principles of reality, economy and effectiveness in planning. In doing so, the necessary expenditures that enable the normal functioning of institutions, as well as regular servicing and fulfillment of the state's obligations, have been considered. The 2026 Budget is planned to be consolidated and realistic and ensures responsible management of public finances and a sustainable level of budget deficit and public debt.

Hence, in 2026 it is planned as follows:

- strict control over the assumption of new obligations and adherence to budgetary principles of economy and efficiency,
- new employment in line with budgetary capacities,
- improved collection of own revenues by budget users,
- rational use of public funds,
- realistic planning and timely execution of capital expenditures,
- redesign of the system of subsidies and social transfers with stricter criteria,
- strengthened fiscal discipline and transparency, and
- digitalization of processes for more efficient and higher-quality public services.

Considering the assumptions, the total revenues of the Budget of the Republic of North Macedonia for 2026 are planned at the level of Denar 374.9 billion, while expenditures are planned at the level of Denar 414.2 billion. The budget deficit is projected at the absolute amount of Denar 39.2 billion, or 3.5% of the projected GDP.

The deviation of 0.5 p.p. from the established fiscal rule for budget deficit is due to the need to secure financial resources for fulfilling obligations arising from NATO membership, specifically for capital investments in defence, modernization of transport infrastructure, and local infrastructure projects.

The Government of the Republic of North Macedonia will achieve gradual alignment with fiscal rules within the framework of the Fiscal Strategy 2026–2030 through measures on both the revenue and expenditure side, including:

- improved collection of budget revenues through formalization of the informal economy, digitalization of processes via the introduction of e-invoicing, and other reform projects,
- consolidation and rationalization of budget expenditures, through clearly defined criteria and strengthened monitoring of public spending,

- improved efficiency and effectiveness of public expenditures, through indicators measuring the success of budgetary policies,
- strategic planning of investments to ensure realistic planning of capital expenditures and timely implementation of projects.

Table 4.3. Budget of the Republic of North Macedonia (Denar million)

Budget of the Republic of North Macedonia for 2026	2021	2022	2023	2024	2025	Budget 2026	difference Budget 2026-2025	B2026 /2025 (%)
TOTAL REVENUES	**218,021**	**243,085**	**277,128**	**305,553**	**362,377**	**374,935**	**12,558**	**3.5**
Tax Revenues and contributions	**196,317**	**220,186**	**250,355**	**283,557**	**319,196**	**335,971**	**16,775**	**5.3**
Tax revenues	125,690	142,567	157,733	177,889	202,100	214,149	**12,049**	**6.0**
PIT	20,552	23,852	27,257	31,852	35,676	38,797	**3,121**	**8.7**
CIT	10,871	15,776	16,927	20,185	23,287	26,572	**3,285**	**14.1**
VAT(net)	58,194	64,764	70,036	81,465	86,692	92,506	**5,814**	**6.7**
Excises	25,548	25,483	26,818	28,705	35,388	35,838	**450**	**1.3**
Customs Duties	8,480	9,973	11,244	12,917	16,255	16,597	**342**	**2.1**
Other taxes	641	670	3,616	957	1,309	1,019	**-290**	**-22.2**
Tax Revenues (SRA)	1,404	2,049	1,835	1,808	3,493	2,820	**-673**	**-19.3**
Social Contributions	70,627	77,619	92,622	105,668	117,096	121,822	**4,726**	**4.0**
Pensions	47,819	52,509	62,610	71,436	81,072	85,807	**4,735**	**5.8**
Unemployment	2,918	3,214	3,842	4,383	4,414	3,141	**-1,273**	**-28.8**
Health	19,890	21,896	26,170	29,849	31,610	32,874	**1,264**	**4.0**
Non-Tax Revenues	**13,882**	**17,189**	**16,866**	**16,920**	**30,608**	**29,060**	**-1,548**	**-5.1**
Capital Revenues	**1,928**	**2,273**	**2,071**	**1,851**	**2,830**	**2,510**	**-320**	**-11.3**
Grants	**5,894**	**3,437**	**7,836**	**3,225**	**9,743**	**7,394**	**-2,349**	**-24.1**
TOTAL EXPENDITURES	**256,906**	**278,596**	**318,538**	**347,454**	**403,727**	**414,174**	**10,447**	**2.6**
Current Expenditures	**233,498**	**249,959**	**275,014**	**318,756**	**356,377**	**374,062**	**17,685**	**5.0**
Wages and allowances	31,010	32,159	36,877	43,889	49,189	52,628	**3,439**	**7.0**
Goods and services	20,110	21,001	21,117	22,923	28,025	28,187	**162**	**0.6**
Transfers to Local SG	21,218	23,365	27,459	30,781	33,516	36,007	**2,491**	**7.4**
Transfers to Local SG Units/VAT	2,238	2,910	3,562	4,202	4,888	5,202	**314**	**6.4**
Transfers to Local SG Units	18,980	20,455	23,897	26,579	28,628	30,805	**2,177**	**7.6**
Subsidies and transfers	30,635	32,536	27,754	33,324	31,734	29,696	**-2,038**	**-6.4**
Social Transfers	121,439	131,758	148,866	170,027	193,296	206,268	**12,972**	**6.7**
Pensions	62,289	67,567	77,967	90,646	106,515	116,820	**10,305**	**9.7**
Transitional costs	9,233	10,827	12,172	14,218	16,000	19,600	**3,600**	**22.5**
Unemployment benefits	1,388	1,282	1,191	1,207	1,384	1,500	**116**	**8.4**
Active measures for employment	1,365	1,420	1,462	1,704	2,622	2,520	**-102**	**-3.9**
Social benefits	12,120	12,505	13,653	14,503	14,259	12,015	**-2,244**	**-15.7**
Health care	35,044	38,157	42,421	47,749	52,516	53,813	**1,297**	**2.5**
Interest Payments	9,086	9,140	12,941	17,812	20,617	21,277	**660**	**3.2**
Capital expenditures	**23,408**	**28,637**	**43,524**	**28,698**	**47,351**	**40,113**	**-7,239**	**-15.3**
Budget balance	**-38,885**	**-35,511**	**-41,410**	**-41,901**	**-41,350**	**-39,239**	**2,112**	**-5.1**
FINANCING	**38,885**	**35,511**	**41,410**	**41,901**	**41,350**	**39,239**		
Inflow	**81,480**	**46,869**	**84,998**	**80,828**	**125,586**	**116,649**		
Outflow	**42,595**	**11,358**	**43,588**	**38,927**	**84,236**	**77,410**		
MEMORANDUM								
Net domestic borrowing	17,566	10,016	29,957	38,188	42,646	15,668		
Net domestic borrowing (continuous government bonds)	18,444	7,012	33,263	37,400	43,049	24,600		
Net foreign borrowing	24,786	19,108	25,741	24,854	-9,730	30,080		
Primary budget balance	-29,799	-26,371	-28,469	-24,089	-20,733	-17,962		
Primary budget balance, % of GDP	**-4.1**	**-3.2**	**-3.2**	**-2.5**	**-2.0**	**-1.6**		
Budget balance, % of GDP	**-5.3**	**-4.4**	**-4.6**	**-4.4**	**-4.0**	**-3.5**		

Source: Ministry of finance

The projections for 2026 budget revenues are based on 2025 revenue performance, the expected macroeconomic indicators, historical data on revenues and the adopted measures for improvement of public revenue efficiency.

The goal of tax policy is to reduce tax evasion, formalize the informal economy and digitize tax processes, which will enable the creation of a fair and transparent tax system. In doing so, institutions will strengthen their capacities and introduce new technologies for more efficient and automated tax collection.

The digitization of tax procedures is one of the main goals in the tax reform process, and the introduction of e-invoice would implement tax control in a better and more efficient manner.

Further modernization and digitization of the Customs Administration imply the establishment of the National Single Window System, benefiting both the business community and the government sector. In addition to the possibility of electronic submission and processing of data, it will also reduce the risk of potential corruption through increased transparency and the electronic payment process.

Total tax revenues in the Budget of the Republic of North Macedonia for 2026 are projected at Denar 214.1 billion, which is a 6% increase compared to the planned tax revenues for 2025, with a share of 19.3% in the projected GDP for 2026.

The projections for 2026 include the expected fiscal effects of previously adopted amendments and supplements in the legal framework for value added tax (VAT), corporate income tax, personal income tax, excise duties and motor vehicle tax.

Revenue growth is projected based on the expected GDP growth, as well as favorable developments in key macroeconomic indicators, including the increase in private and public consumption, the growth of nominal wages and employment, as well as price developments, which would enable an increase in the tax base.

Positive fiscal effects are also expected due to the adopted Law on Minimum Global Corporate Income Tax, that introduces the Model rules prescribed by OECD (Pillar two) and is aligned with the EU Directive on ensuring a minimum effective taxation for multinational groups. Additionally, measures to suppress the informal economy and digitize processes will contribute to increased tax discipline and more successful and efficient revenue collection.

The expected mutual influence of the above factors justifies the upward adjustment of the planned public revenues for the coming year.

Personal income tax revenues for 2026 are projected at Denar 38.8 billion, which is an increase of 8.7% compared to the planned revenues for 2025. This increase is due to the increase in the tax base based on income from work, primarily from wages and income from occasional and temporary services, the growth of wages in the public sector and income from capital, as well as the increased number of taxpayers, i.e. an increase in employment. Personal income tax revenues are planned to have a share of 18.1% in total tax revenues and 3.5% in GDP.

The projections for corporate income tax revenues for 2026 amount to Denar 26.6 billion, which represents an increase of 14.1% compared to the planned revenues for 2025. These revenues are planned to have a share of 12.4% in total tax revenues and 2.4% in GDP. The increase is due to the positive realization of revenues from this type of tax in 2025, an increase in company profits, taxation of companies that were in the state aid system and the expected economic growth. The planned amount also includes the projected revenues based on the implementation of the Law on Minimum Global Corporate Income Tax.

Revenues from excise duties in 2026 are projected to reach Denar 35.8 billion, which represents an increase of 1.3% compared to 2025. They will participate with 16.7% in total tax revenues and with 3.2% in GDP.

The 2026 budget foresees revenues from customs duties, including the motor vehicle tax, in the amount of Denar 16.6 billion, which represents an increase of 2.1% compared to the previous year. The share of these revenues will be 7.8% in total tax revenues and 1.5% in GDP.

Other tax revenues, including own revenues of budget users, are projected to participate with minimal 1.8% in total tax revenues and 0.3% in GDP.

The 2026 Budget plans to generate:

- non-tax revenues, based on administrative fees, concessions and other non-tax revenues on own accounts of around Denar 29 billion,
- capital revenues based on the sale of agricultural land and social housing, as well as on the basis of a planned dividend from AD Makedonski Telekom of around Denar 2.5 billion, and
- donations for specific projects and from withdrawals from EU pre-accession funds planned at a level of Denar 7.4 billion.

In 2026, the resolution remains, that non-tax revenues on the own accounts of budget users should primarily be used for current operations, instead of being fully financed with budget funds.

Social contributions as source revenues of the pension and health insurance funds and the Employment Agency are projected to be 4% higher than the contributions planned for 2025 and are planned in the amount of Dena 121.8 billion.

Table 4.4. Budget of the Republic of North Macedonia (% of GDP)

Budget of the Republic of North Macedonia 2017-2026, % of GDP												
	Final Account 2017	Final Account 2018	Final Account 2019	Final Account 2020	Final Account 2021	Final Account 2022	Final Account 2023	2024	2025	P2025	Decision for reallocation 2025	2026*
TOTAL REVENUES	**29.1**	**28.5**	**29.4**	**28.3**	**29.9**	**29.8**	**30.7**	**32.2**	**35.1**	**35.4**	**35.7**	**33.8**
Taxes and Contributions	**25.5**	**25.9**	**25.8**	**25.9**	**26.9**	**27.0**	**27.7**	**29.9**	**31.2**	**31.2**	**31.2**	**30.3**
Tax Revenues	16.9	17.3	16.9	16.0	17.2	17.5	17.5	18.7	19.8	**19.8**	**19.8**	19.3
Personal income tax	2.5	2.7	2.7	2.8	2.8	2.9	3.0	3.4	3.5	**3.5**	**3.5**	3.5
Profit tax	1.8	2.2	1.7	1.6	1.5	1.9	1.9	2.1	2.3	**2.3**	**2.3**	2.4
VAT	7.7	7.5	7.5	7.0	8.0	7.9	7.8	8.6	8.5	**8.5**	**8.5**	8.3
Excise duties	3.7	3.8	3.8	3.4	3.5	3.1	3.0	3.0	3.5	**3.5**	**3.5**	3.2
Customs	0.8	0.8	0.9	1.0	1.2	1.2	1.2	1.4	1.6	**1.6**	**1.6**	1.5
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.1	0.1	**0.1**	**0.1**	0.1
Tax revenues (own accounts)	0.2	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.3	**0.3**	**0.3**	0.3
Contributions	8.6	8.6	9.0	9.9	9.7	9.5	10.3	11.1	11.5	**11.5**	**11.5**	11.0
Pension insurance contribution	5.8	5.7	6.1	6.7	6.6	6.4	6.9	7.5	7.9	**7.9**	**7.9**	7.7
Employment contributions	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	**0.4**	**0.4**	0.3
Health insurance contribution	2.4	2.4	2.5	2.8	2.7	2.7	2.9	3.1	3.1	**3.1**	**3.1**	3.0
Non-tax revenue	**2.2**	**1.9**	**2.7**	**1.7**	**1.9**	**2.1**	**1.9**	**1.8**	**2.6**	**3.0**	**3.0**	**2.6**
Capital income	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.2**	**0.3**	**0.3**	**0.3**	**0.2**
Donations	**1.2**	**0.5**	**0.6**	**0.5**	**0.8**	**0.4**	**0.9**	**0.3**	**1.0**	**1.0**	**1.1**	**0.7**
TOTAL EXPENDITURES	**31.8**	**30.3**	**31.4**	**36.4**	**35.2**	**34.1**	**35.3**	**36.6**	**39.1**	**39.5**	**39.7**	**37.4**
Current expenditures	**28.6**	**28.4**	**28.8**	**34.0**	**32.0**	**30.6**	**30.5**	**33.6**	**34.5**	**34.9**	**35.5**	**33.7**
Salaries and allowances	4.2	4.0	4.0	4.4	4.3	3.9	4.1	4.6	4.7	**4.8**	**4.8**	4.7
Goods and services	2.5	2.2	2.3	2.3	2.8	2.6	2.3	2.4	2.6	**2.7**	**2.7**	2.5
Transfers to LSGUs	2.8	2.7	2.8	3.2	2.9	2.9	3.0	3.2	3.3	**3.3**	**3.3**	3.2
VAT subsidy	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	**0.5**	**0.5**	0.5
Subsidy block	2.4	2.4	2.4	2.8	2.6	2.5	2.6	2.8	2.8	**2.8**	**2.9**	2.8
Subcidies and transfers	2.4	3.1	2.9	5.2	4.2	4.0	3.1	3.5	3.3	**3.1**	**3.3**	2.7
Social Transfers	15.3	15.2	15.6	17.6	16.6	16.1	16.5	17.9	18.7	**18.9**	**19.4**	18.6
Pensions	8.4	8.2	8.1	9.0	8.5	8.3	8.6	9.6	10.3	**10.4**	**10.7**	10.5
Transition costs	1.0	1.1	1.3	1.3	1.3	1.3	1.3	1.5	1.4	**1.6**	**1.6**	1.8
Unemployment benefits	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	**0.1**	**0.1**	0.1
Active employment measures	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.2	0.2	**0.2**	**0.2**	0.2
Social benefits	1.3	1.3	1.4	1.7	1.6	1.5	1.5	1.5	1.4	**1.4**	**1.4**	1.1
Health care	4.4	4.4	4.4	5.2	4.8	4.7	4.7	5.0	5.1	**5.1**	**5.3**	4.9
Interest payments	1.4	1.2	1.2	1.2	1.2	1.1	1.4	1.9	2.0	**2.0**	**2.0**	1.9
Capital Expenditures	**3.2**	**1.8**	**2.6**	**2.4**	**3.2**	**3.5**	**4.8**	**3.0**	**4.6**	**4.6**	**4.3**	**3.6**
BUDGET BALANCE	**-2.7**	**-1.7**	**-1.9**	**-8.0**	**-5.3**	**-4.4**	**-4.6**	**-4.4**	**-4.0**	**-4.0**	**-4.0**	**-3.5**

Source: Ministry of finance

Budget expenditures for 2026 amount to Denar 414.2 billion or at a higher level of 2.6%, i.e. about Denar 10.4 billion more than in 2025.

Current expenditures for 2026 are planned to amount to around Denar 374 billion, primarily intended for regular payment of salaries to public sector employees, pensions, social rights, payment of subsidies, support for the economy and innovative activities.

Under the current expenditures, the following is projected:

a) expenditures for the payment of salaries are projected at a level of approximately 52.6 billion denars and are planned at a higher level of approximately Denar 3 billion compared to 2025. The projection is based on the existing legal regulations, the obligations arising from the already concluded collective agreements, and the new employment that will be realized primarily through mobility and taking over employees from other public sector institutions.

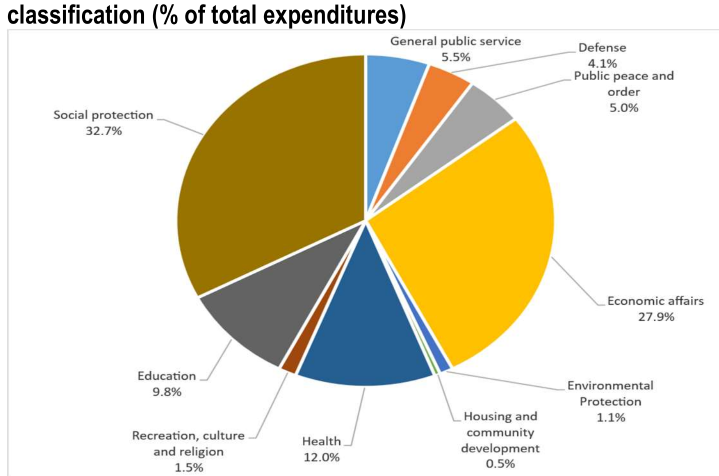
b) expenditures for goods and services are projected at Denar 28.2 billion, and within this framework funds have been provided for the smooth functioning of institutions and the fulfillment of obligations arising from NATO standards and other international agreements.

c) current transfers and subsidies are projected in the amount of Denar 271.9 billion, including the following:

Social transfers projected in the amount of Denar 206.3 billion, and include:

- Denar 116.8 billion are planned for pension payments, including the effect of the realized increase in pensions from 2025 and an additional increase in pensions for 2026, in accordance with the existing legal framework,
- Denar 12 billion have been allocated for the payment of social protection benefits to the most vulnerable groups of the population,
- Denar 1.5 billion for payment of unemployment benefits,
- Denar 2.3 billion for implementation of active employment policies and measures, aimed at creating employment programmes, measures and services to the end of improving the functioning of the labour market, supporting the job creation, employing young persons, supporting employment of disabled persons, and providing for the beneficiaries of guaranteed minimum income (GMI) to be included in the active employment policies and measures.

Chart 4.1. Expenditures of the Budget of RNM 2026 – functional classification (% of total expenditures)



Source: MoF projections

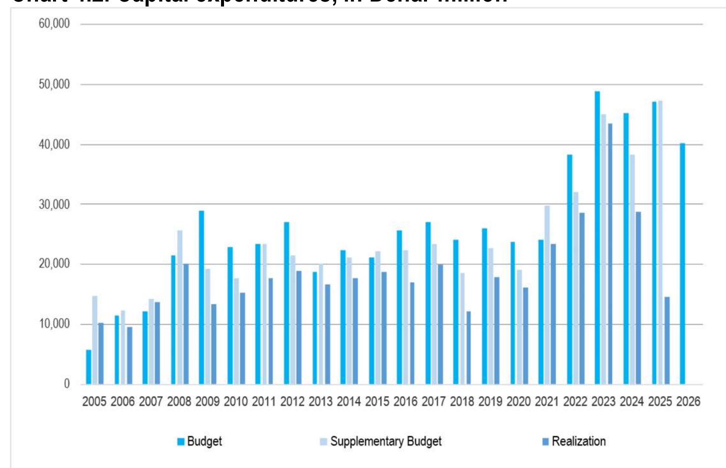
Denar 53.8 billion are projected for health care through the Health Insurance Fund, with most of the funds being intended for financing health care services and payment of liabilities of the public health institutions.

Transfers to Local Self-government Units are planned in the amount of Denars 36 billion intended for financing the transferred competencies to municipalities and grant to municipalities from the VAT revenues.

Block and earmarked grants to municipalities are intended for financing material expenditures and payment of salaries to employees in institutions with transferred competencies to local governments, i.e. salaries to employees in schools, kindergartens, nursing homes, cultural institutions and firefighters.

The additional increase of Denar 2.2 billion is intended for financing increased salaries in institutions at the local level that are financed with block and earmarked grants, as well as for covering the material expenditures of institutions that are financed through block grants.

Chart 4.2. Capital expenditures, in Denar million



Source:MoF and MoF projections

Capital expenditures are dimensioned at a level of 40.1 billion denars, based on realistic planning and in order to enable timely implementation of the projects.

In this regard, through the 2026 Budget, infrastructure and energy projects will be implemented, as well as capital projects in the field of traffic, communal and local infrastructure to improve the general living conditions of citizens.

Government's financial support and cooperation with the municipalities is envisaged, which will be directed towards continuous investment of funds from the central budget for capital infrastructure projects in the municipalities, increasing the financial stability of the municipalities by enabling fair distribution of funds in accordance with the principles of balanced regional development, benefits and incentives for municipalities that have planned budgets, a high level of implementation, as well as a high level of collection of local taxes and an improved methodology for calculating current maintenance costs.

In 2026 the western part of Road Corridor 8 will be financed, by constructing Kichevo – Bukojchani motorway section with an EBRD loan, as well as Kichevo - Ohrid motorway section with EXIM Bank loan. Substantial investments from the national budget are planned in the field of road infrastructure, related to the design process and the construction of part of Corridor 8, such as Tetovo – Gostivar highway (highway expansion), construction of Gostivar - Bukojchani section, as well as Prilep - Bitola section as part of Corridor 10d.

Moreover, construction of Skopje – Blace motorway section (border with Kosovo) is envisaged, financed with a loan from EBRD and grant from Western Balkan Investment Fund (WBIF), alongside improvement of the road infrastructure in the municipalities through the Local Roads Connectivity Project, financed with World Bank loans. National Roads Programme, financed with an EBRD loan, continues to be implemented, as well as the activities under the Western Balkans Trade and Transport Facilitation Project, which is part of the World Bank regional initiative, with funds for its financing being provided therefrom, as well as investment grant from Western Balkan Investment Fund (WBIF) – Programme for safe and sustainable transport.

During 2026, funds are projected for continuing the implementation of the second phase for construction and rehabilitation of the Rail Corridor VIII Project - Kumanovo - Beljakovce - Kriva Palanka section, financed by EBRD. In addition to EBRD loan and grant funds under the Western Balkans Investment Framework, activities are envisaged under the Project, being aimed at improving the technical features of the railroad tracks, construction and rehabilitation of bridges, railway stations, stops, underpasses and overpasses.

As for railway infrastructure, in 2026, in cooperation with the EBRD, a project will be prepared and implemented, foreseeing a construction of a joint railway border crossing with the Republic of Serbia, i.e. construction and equipping of Tabanovce rail station.

In the area of water supply and communal infrastructure and waste management, the construction of water supply and sewage systems in municipalities is planned, financed from own sources and with funds from the new EIB credit line. Also, a significant capital project that will be implemented in this area is the Regional Solid Waste Project, which will be financed with a loan from the EBRD. This project will help in the development and establishment of regional waste management systems in the following selected regions of the Republic of North Macedonia: Southwestern, Pelagonia, Polog, Vardar and Southeast regions. Also, the activities of one of the larger capital projects in the country - Wastewater Treatment Plant in Skopje, which are financed with loans from the EIB and EBRD, as well as a grant from the EU instrument - Western Balkans Investment Framework - WBIF, will continue.

In 2026, with a loan from the World Bank and a grant from the Western Balkans Investment Framework - WBIF, the implementation of the Public Sector Energy Efficiency Project will continue, which will finance energy-efficient projects in municipalities, as well as public health institutions of the central government.

IPA funds will support the rehabilitation and upgrading of the sewage network and the construction of wastewater treatment plants in Bitola and Tetovo, as well as the establishment of a regional waste management system and the closure of landfills in the Eastern and Northeastern regions. Also, within the framework of IPA, investment projects are planned for the collection and treatment of wastewater in the municipality of Shtip and the connection of Vinica with the Kochani treatment plant, including partial rehabilitation and expansion of the sewage and atmospheric systems in the municipality of Vinica.

The construction of the necessary infrastructure and facilities, and geomechanical investigation works for the arrangement of technological and industrial development zones continues.

In the health sector, investments are planned for the construction and reconstruction of public health institutions, the procurement of medical equipment and the reconstruction of the General Hospital in Kičevo.

In education, child protection and sports, capital investments are planned for the construction and reconstruction of primary and secondary schools, kindergartens, the construction of school and sports halls, the reconstruction of student dormitories, the equipping and reconstruction of universities and investments in sports infrastructure.

In the area of education, with loans from the KfW Bank and grants from the Western Balkans Investment Framework - WBIF within the framework of the Regional Energy Efficiency Program, the implementation of the Project for the Reconstruction of Student Dormitories will continue, as well as the Project for the Construction of sport halls in primary schools and the rehabilitation of primary and secondary schools, financed with loans from the CEB, grant funds from the EU instrument Western Balkans Investment Framework - WBIF and national co-financing.

To improve learning conditions in primary education, a loan from the World Bank will continue to finance the implementation of the Primary Education Improvement Project and considering the successful implementation of the project, activities have been undertaken to secure an additional loan from the World Bank for this purpose. To improve access to social rights and services, as well as expand the capacities for preschool care and education through the construction of new facilities and the conversion/upgrading of the existing infrastructure of preschool institutions, the implementation of the Social Security Administration Project financed by World Bank loan, will continue in 2026. The implementation of the two projects for the improvement of social services, financed by loans from the World Bank, is also planned.

To support the agricultural sector, significant capital investments are planned for rural development, construction of hydro systems and investments to improve the competitiveness and modernization of agricultural holdings.

With a loan from the World Bank and EU grant funds, the Agricultural Modernization Project will continue, with the construction of purchase and distributional centers for agricultural products.

Also, in 2026, the implementation of the Irrigation Program of North Macedonia is planned, which is financed with a loan from KfW and includes the rehabilitation and expansion of 4 irrigation systems along the Vardar River valley (Straiste, Lisice, Konjsko and Pepeliste), as well as the construction of small hydropower plants at HS Lisice.

In the area of justice, in 2026, within the framework of the Project for the Reconstruction of Penitentiary Institutions, financed with a loan from the Development Bank of the Council of Europe, realization of activities related to detention unit, a closed unit and a central economic unit in the Idrizovo Correctional Facility will begin.

For the implementation of the Public Finance Reform Program, activities are underway to prepare and introduce an integrated financial information management system, an integrated tax information management system, and a state aid information management system, which will be financed with a loan from the World Bank.

The projected deficit for 2026 in the amount of Denar 39.2 billion and the debt repayment in the amount of Denar 74.8 billion (of which Denar 54.9 billion for external debt and Denar 19.9 billion for domestic debt) will be financed through domestic and foreign borrowing.

External debt principal repayment in the amount of Denar 54.9 billion includes the regular servicing of obligations to foreign creditors: the Eurobond that was issued in 2020, in the amount of Denar 43.1 billion, the IMF in the amount of Denar 3.1 billion, the IBRD in the amount of Denar 3.3 billion, the EBRD Denar 2.2 billion, IDA Denar 0.9 billion, CEB Denar 0.6 billion, EIB Denar 0.7 billion and the remaining Denar 1.0 billion to other bilateral creditors (IFAD, KfW, Japan International Cooperation Agency, etc.).

Domestic debt principal repayment in a total amount of Denar 19.9 billion refers to repayments of 2, 3, 5 and 10-year government bonds in the amount of Denar 11.0 billion, repayment of domestic loans in the amount of Denar 8.6 million, as well as repayment of structural bonds in the amount of Denar 0.4 billion. Other long-term bonds with maturities of 7, 15 and 30 years do not mature in 2026.

The planned level of domestic borrowing is Denar 35.6 billion and will be provided through borrowing with government securities and/or domestic loans. Borrowing on the domestic market will provide financing under favorable conditions, using more favorable interest rates, in order to optimize the government securities portfolio, and to reduce the risk of refinancing.

External borrowing in the total amount of Denar 85 billion will be realized through the issuance of a Eurobond, as well as other external borrowing for budget financing and through the withdrawal of funds from credit lines from foreign financial institutions intended for financing individual projects and/or budget deficit.

4.4 Medium-Term Budgetary Outlook

The main goal of tax policy in the forthcoming period continues to be to ensure sustainable economic growth and development, while ensuring legal certainty for taxpayers and regular collection of public revenues. The main priorities are:

- greater fairness in taxation to ensure that everyone fulfills their social obligation and pays their fair share of taxes,
- greater efficiency and effectiveness of the tax system for better revenue collection through a more efficient fight against unregistered activities and tax evasion, strengthening institutional capacity and reducing tax arrears,

- increased tax transparency, which includes improving the exchange of information between tax authorities and other entities, which will primarily be based on electronic services, which in turn will lead to increased fiscal literacy and greater voluntary compliance,
- better quality of services provided by tax system institutions, in a way that simplifies and speeds up procedures and reduces the administrative burden through more digital services, better management of the issuance of import-export permits, elimination of unnecessary non-tariff barriers and better internal and tax control,
- introduction of ecological (green) taxation to stimulate taxpayers to contribute to less pollution through public taxes, i.e. to discourage them from polluting the environment. The effect of this priority is expected to be reflected both in the budget revenues and in the environment.

In the coming period, tax policy will be aimed at maintaining low tax rates for individual direct and indirect taxes.

Table 4.5. Review of Tax Rates in the Republic of North Macedonia – 2025

Type of Tax	Tax Rate %
Personal Income Tax	10% for all types of income
	15% on income on the basis of games of chance
CIT	10%
Global minimum corporate income tax	The difference between minimum tax rate of 15% and the effective tax rate calculated in accordance with 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% други

Source: Ministry of FInance

In the area of customs policy, and as part of the implementation of the Government Work Program 2024-2028 in the section where the Government committed to the gradual harmonization of customs rates with the rates applied in the European Union, adapted to the export-import needs of the economy and the state, a Law on Amendments to the Law on Customs Tariff (Official Gazette of the Republic of Macedonia No. 130 of 27.06.2025) was adopted, which reduced the customs rates of 67 goods that are used as raw materials or intermediate goods in the production process, especially in the sectors of the automotive, metal processing industry, metallurgy and energy, i.e. individual products (components) needed for the production of highly finished products in order to increase the export competitiveness of the domestic industry. The amendment to the Law on Customs Tariff was made in consultation with the Economic Chamber and represents a continuation of the conduct of customs policy in the direction of supporting the business community through the continuation of aligning the customs rates on the most priority raw materials and intermediate goods used in the processing industry. The legal amendment is aimed at increasing the competitiveness of domestic companies exporting to foreign markets, the export, the foreign exchange inflow, as well as increase in investments and the number of jobs. The law also reduced the customs rate for lithium-ion batteries for storing electricity in the energy sector. This is because batteries are becoming a key element in balancing energy and system services, as well as in planning the transmission of energy from renewable energy sources to the grid in order to maintain the stability of the system, but also to ensure the feasibility of renewable projects. The reduction of the customs duty rate for lithium-ion batteries is of great importance and will directly help companies in the energy sector in increasing their capacities and their export competitiveness. In addition, the law abolished customs duties on goods originating from the United States of America.

Also, in the area of customs, work is underway on a new Customs Law fully aligned with the European Union Customs Code. The new Customs Law envisages simplification, modernization and rationalization of customs regulations and procedures, ensuring greater legal certainty and predictability, simplifying customs rules and procedures and enabling more efficient customs operations in accordance with modern needs, a complete transition to paperless operations and a fully electronic environment. The general benefits of adopting a new Customs Law are alignment with EU customs legislation; protection of the financial interests of the state; protection from unfair and illegal trade by supporting legal business activity; guaranteeing the safety and security of the state and its citizens and protecting the environment and maintaining an appropriate balance between customs controls and trade facilitation.

At the same time, the Law on the establishment of a single window for customs is being drafted as part of the Western Balkans Trade Facilitation Project, financed by a loan from the World Bank. This law prescribes the basis for the establishment of a new system that will enable the full digitalization of the issuance of permits, licenses and their payment, collective use of data by institutions and the possibility of communication with institutions of other countries. The establishment of the New National Single Window System will provide significant benefits, primarily for the business community, but also for the government sector. Companies will receive better services through full digitalization and removal of bureaucratic burdens, as well as reducing costs and waiting time for the completion of export and import procedures. Additionally, by applying this system, the risk of potential corruption will be reduced through increased transparency and through the electronic payment process.

In the area of tax policy, more specifically in international taxation, the Law on a Minimum Global Corporate Income Tax (Published on January 3, 2025, Official Gazette No. 3/2025) has been adopted, the fiscal implications of which for 2026 were estimated at Denar 1.6 billion. The Law aligns with European legislation and stipulates rules for top-up tax ensuring minimum effective income taxation rate of 15% that will apply to MNEs and large domestic groups that have an annual income of at least EUR 750 million in the consolidated financial statements of the ultimate parent company for at least two of the four years preceding the fiscal year under review. The law prescribes three rules for paying top-up tax: Income Inclusion Rule (IIR) – the parent company pays top-up tax on the low-taxed income of its subsidiaries, Undertaxed Payments Rule (UTPR) – if the country of the parent company does not apply IIR, top-up tax can be calculated at the level of another member of the group located in a country that applies UTPR, and Qualified Domestic Minimum Top-up Tax (QDMTT) – a local mechanism by which North Macedonia will retain its revenues from the top-up tax, rather than another country collects that tax. By prescribing the obligation to pay a qualified domestic top-up tax (which has priority over the application of the other two rules), the protection of the tax base in North Macedonia and the realization of additional tax revenues in the Budget will be ensured, given that the constituent entities of multinational companies that operate in North Macedonia will pay the top-up tax to the domestic jurisdiction, and not in the country where the multinational company is headquartered. Based on adopted Law on Minimum Global Corporate Income Tax, at the end of 2025 a Rulebook was adopted on the method of calculating and collecting the top-up income tax.

The latest amendments to the Law on the Public Revenue Office prescribed provisions for the digitalization and exchange of documents and information for tax purposes between institutions and between the tax authority and the taxpayer, as well as for the introduction of an integrated tax information system (IDIS) and a working body for its implementation. Also, the amendments enhanced the provisions for data exchange between institutions and increased interoperability.

To increase efficiency, effectiveness and digitalization of tax processes, as well as reduce the shadow economy through regular monitoring of turnover between taxpayers and increased control over value added tax, the Ministry of Finance and the PRO have prepared a project for introduction of e-Invoice system and electronic fiscal invoice. The pilot project is planned to start in early 2026, and the new electronic system will replace traditional processes associated with extensive use of paper and physical documents, reduce the administrative burden on taxpayers and simplify the operations of companies, while also accelerating and improving the way tax controls are carried out. The introduction of the E-invoice is part of the Government's systemic approach to dealing with the informal economy, an approach that increases transparency and strengthens trust between tax authorities and the business community. The E-invoice project aims to enable more efficient tax collection, based on accurate and realistic data, as well as a stronger and more precise fight against the shadow economy.

In line with the adopted **2023 - 2027 Strategy on Formalization 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. This will contribute to reducing both the number of unregistered businesses and number of informally employed persons. To that end, by effective implementation of the measures and activities set in the Strategy, informal economy is expected to be reduced to 26% of GDP by the end of 2027.

Table 4.6. Projections by Type of Tax (Denar million)

Tax	2026*	2027*	2028*	2029*	2030*
Personal income tax	38,797	41,513	44,549	47,768	51,265
Corporate tax	26,572	28,432	30,511	32,716	35,111
VAT	92,506	98,981	106,221	113,895	122,234
Excise (Central Buget and PDIF)	35,838	38,347	41,151	44,125	47,355
Customs duty and motor vehicle tax	16,597	17,759	19,058	20,435	21,931
Other taxes and Tax Revenues (SRA)	3,839	4,830	4,947	5,073	5,205
Total	214,149	229,862	246,437	264,011	283,101

Source: Ministry of Finance's Projections (*)

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

Preparation and submission of Report on the Impact of Tax Expenditures on the Inflows is an obligation stipulated under the Organic Budget Law. The Report is to be submitted to Parliament annually, as a document accompanying the Annual Financial Statement, reporting on the Budget execution for the previous budget year. The Table below outlines the total tax expenditure based on PIT, CIT and VAT.

Table 4.7. Tax expenditures by type of tax (Denar million)

Tax	2026*	2027*	2028*	2029*	2030*
Personal income tax	1,078	1,153	1,238	1,327	1,424
Corporate tax	7,074	7,569	8,123	8,709	9,347
VAT	46,178	49,411	53,024	56,856	61,018
Total	54,330	58,133	62,384	66,892	71,789

Source: Ministry of Finance's Projections (*)

With respect to the tax policy, as per the 2024 - 2028 Government Work Programme, several reforms in the tax area are envisaged, including increase in both efficiency and effectiveness of the tax administration for successful execution of tax procedures.

The amendments to the Law on Tax Procedure will enable the rationalization of procedures, strengthening the collection and management of public revenues, prevention of abuses and the creation of a stable and operationally efficient, reliable and safe tax system, in line with modern European standards.

Namely, they arise primarily from the intensive development of digital public services, the introduction of the e-Invoice system, Electronic Tax Administration (e-PRO) and other national electronic platforms and registers, as well as from the strengthened standards for personal data protection, security, safety and sustainability of tax data and of the taxation systems and electronic tax services of the PRO. The amendments will enable further clarification and definition of the procedures for identification and registration of taxpayers and users of the PRO systems, the Single Register of Taxpayers and the Tax Identification Number; general simplification of procedures, reduction of administrative obligations, faster services and higher transparency of the tax administration; clearer, applicable and legally sound solutions in the area of collection, forced collection, payment deferral, statute of limitations, seizure and sale of property, with the aim of legal certainty, efficiency and equality in the application of the law, etc.

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 **draft Law on Administrative Cooperation for Tax Purposes**, aimed at defining concrete legal framework for strengthening the cooperation among tax jurisdictions through efficient exchange of information, all to the end of carrying out more efficient tax audits in terms of international taxation so as to avoid double taxation or double exemption and to increase tax collection. The adoption of the law will, among other things, enable the automatic exchange of information on financial statements, as well as information related to the top-up tax prescribed in the Law on Global Minimum Corporate Income Tax. This law will also enable the tax authority to use the exchanged information for the purposes of assessing high transfer pricing risks and other risks related to tax base erosion and profit shifting.

Additionally, in accordance with the Government Work Program 2024-2028, and in order to increase the economic activity and labor productivity, and address negative demographic trends, the tax policy in the area of direct taxes provides for the introduction of targeted tax incentives. These measures aim to stimulate human capital, increase the inclusion of women in the labor market and provide additional support for families with children. Through selective relief and exemptions, a more favorable business and social environment is created that contributes to long-term economic growth and improvement of the demographic structure in the country.

It is planned to restore the treatment of tax-deductible expenses for the costs of paid premiums for voluntary life insurance, and it is also planned to refund personal income tax to mothers of newborns, for a period of time that depends on the number of newborns (first, second, third child, etc.). It is also planned to exempt from paying contributions to mandatory health and unemployment insurance, as well as from paying personal income tax for a period of three years from the date of employment for companies that will employ mothers of three or more children, with the employer's obligation to keep the mother in the workplace for as many years as the measure was used.

Also, in the coming period, it is planned to continue negotiations on agreements for avoidance of double taxation and protection from fiscal evasion in relation to income taxes.

Table 4.8. 2023 -2030 Budget of the Republic of North Macedonia (Denar million)

	Final account 2023	Final account 2024	2025	2026*	2027*	2028*	2029*	2030*
Total revenues	**277,129**	**305,553**	**362,377**	**374,935**	**402,962**	**428,457**	**456,181**	**485,710**
Tax revenues and contributions	**250,355**	**283,557**	**319,196**	**335,971**	**360,198**	**385,883**	**413,206**	**442,725**
Tax revenues	157,733	177,889	202,100	214,149	229,862	246,437	264,012	283,101
Contributions	92,622	105,668	117,096	121,822	130,336	139,446	149,494	159,624
Non-tax income	**16,866**	**16,920**	**30,608**	**29,060**	**29,362**	**29,072**	**29,473**	**29,483**
Capital income	**2,071**	**1,851**	**2,830**	**2,510**	**2,710**	**2,710**	**2,710**	**2,710**
Donations	**7,836**	**3,225**	**9,743**	**7,394**	**10,692**	**10,792**	**10,792**	**10,792**
Total expenditures	**318,539**	**347,454**	**403,728**	**414,175**	**438,722**	**466,523**	**494,043**	**525,369**
Current expenditures	**275,015**	**318,756**	**356,377**	**374,062**	**389,921**	**402,742**	**418,242**	**434,849**
Wages and allowances	36,877	43,889	49,189	52,628	54,153	55,745	58,437	61,256
Goods and services	21,117	22,923	28,025	28,187	27,177	27,782	28,292	30,092
Transfers to LGUs	27,459	30,781	33,516	36,007	37,355	39,244	41,178	43,139
Subsidies and transfers	27,754	33,324	31,734	29,696	33,830	34,930	35,930	37,630
Social transfers	148,867	170,027	193,296	206,268	213,579	219,848	226,245	232,981
Interest payments	12,941	17,812	20,617	21,277	23,827	25,194	28,159	29,751
Homemade	4,181	6,912	9,199	11,329	12,144	13,543	15,182	16,168
Foreign	8,760	10,900	11,418	9,948	11,683	11,651	12,977	13,583
Capital expenditure	**43,524**	**28,698**	**47,351**	**40,113**	**48,801**	**63,781**	**75,801**	**90,520**
Budget balance	**-41,410**	**-41,901**	**-41,350**	**-39,239**	**-35,760**	**-38,066**	**-37,861**	**-39,659**
Primary budget balance	**-28,469**	**-24,089**	**-20,734**	**-17,962**	**-11,933**	**-12,872**	**-9,702**	**-9,908**
Total revenues, % of GDP**	**30.9**	**32.2**	**35.5**	**33.9**	**34.2**	**34.1**	**34.0**	**33.9**
Total expenditures, % of GDP**	**35.5**	**36.6**	**39.5**	**37.4**	**37.2**	**37.1**	**36.8**	**36.7**
Budget balance, % of GDP**	**-4.6**	**-4.4**	**-4.0**	**-3.5**	**-3.0**	**-3.0**	**-2.8**	**-2.8**
Primary budget balance, % of GDP**	**-3.2**	**-2.5**	**-2.0**	**-1.6**	**-1.0**	**-1.0**	**-0.7**	**-0.7**

Source: MInistry of Finance, projections of Ministry of Finance (*)

The expenditure side of the Budget for the coming period is fully aligned with the country's strategic priorities, which include fostering economic growth, stable public finances, improved public infrastructure, and a better standard of living for citizens.

The expenditures for the next medium-term period are based on realistic assumptions for:

- normal and responsible functioning of institutions through regular service of obligations,
- a disciplined approach to the use of limited budget funds through increased oversight and clearly defined criteria for budget support,
- performance-based and results-based budgeting to improve the efficiency and effectiveness of public expenditures through the development and continuous monitoring of indicators for measuring the success of the implementation of policies in the Budget, and
- strategic planning of large infrastructure projects.

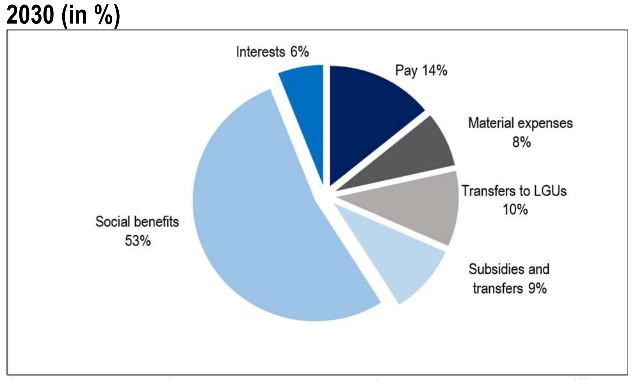
Average share of total expenditures in the 2026-2030 period accounts for around 37% of GDP. Txe expenditure projections for the forthcoming medium-term period are prepared on the basis of three key postulates:

- revenue projections compliance with planned economic activities,
- total expenditure projections ensure gradual fiscal consolidation, and
- projected expenditures provide for regular and effective execution of all legal obligations.

When projecting the amount and the structure of current expenditures for the coming period (Chart 4.3), 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 subsidizing innovation activities, the following presumptions are taken into account:

- efficiency and productivity: increase of efficiency, productivity and accountability of public sector, public administration optimization through structural changes and adjustment of wages in line with economic growth,
- optimizing resources: more efficient use of resources by improving the planning and the execution of operating expenditures,
- expenditure control: reducing the non-essential expenditure, as well as introducing spending standards,
- full economic support: more resources for targeted subsidies and transfers with bigger impact on economic activity,
- social assistance and employment: reducing poverty by properly targeting social assistance and increasing participation in the labour market.

Chart 4.3. Average structure of current expenditures 2026-2030 (in %)

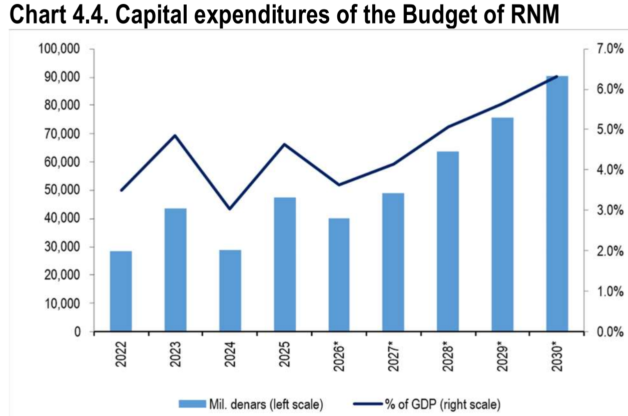


Source: Ministry of Finance and Ministry of Finance's Projections(*)

The Budget allocates significant funds to municipalities, in the form of grants for the implementation of transferred competencies (in the areas of primary and secondary education, culture, kindergartens and nursing homes, and firefighting), as well as financial resources intended for the implementation of specific capital projects at local level. Furthermore, for state-owned PEs and JSCs, financial resources are allocated to support the investment activities of these public entities, based on legal regulations, as well as for budgetary support of the public interest activities carried out by each of these entities.

The medium-term fiscal projections have a strong development component, with a significant average share of capital expenditures of 5% of GDP annually and represent key element of public finances. In the period 2026 - 2028, fiscal policy will be aimed at creating prerequisites for a new cycle of economic growth and ensuring a significant level of public investment, which is the basis for

Chart 4.4. Capital expenditures of the Budget of RNM



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

improving economic prospects and a better life for citizens.

In this regard, significant capital investments are planned (Chart 4.4) using funds from the Budget, but also funds provided by loans from international financial institutions and bilateral creditors. The planned amounts indicate an intensification of infrastructure projects, i.e. investments in road and railway infrastructure, energy and utility infrastructure, as well as capital investments to improve conditions in the health, education and social systems, agriculture, culture, sports, environmental protection and the judiciary.

Significant investments are planned with budget funds in road infrastructure, with the aim of planning, designing, constructing and expanding highway sections of Corridor 8 and Corridor 10-d.

In the area of road infrastructure, the construction of the Kichevo - Bukojcani highway section continues, as well as the Kichevo - Ohrid section with loan funds. Also, the previously provided loan funds will finance the construction of the Skopje - Blace highway section (border with Kosovo), and a special focus will be on the successful implementation of activities to improve the road infrastructure of the municipalities through the Local Roads Connectivity Project and the Western Balkans Trade and Transport Facilitation Project.

In terms of road infrastructure, more significant capital projects that will be financed through the IPA 2 programs are the construction of the road section Gradsko - Drenovo interchange, as part of the road Corridor 10-d, rehabilitation of the regional road A2, section Kumanovo - Stracin (phase 1), construction of a new expressway Prilep - bridge on the Lenishka River and construction of a third lane on the road section from the village of Belovodica to the Mavrovo quarry, then replacement of protective fences, according to European standards (EN) on highways, in a length of 100 km on Corridor 10, procurement and installation of new signaling at railway crossings and implementation of measures to improve road safety along selected road sections.

In the area of railway infrastructure, it is planned to finance the two phases of the construction and rehabilitation of the eastern part of Corridor 8 railway line, sections Beljakovce - Kriva Palanka - Border with Bulgaria, with a grant of Euro 68.5 million provided for the second section, and Euro 149.2 million provided for the third section from the Western Balkans Investment Framework (WBIF). At the same time, the construction of a railway border crossing with associated facilities "Tabanovce" between the Republic of North Macedonia and the Republic of Serbia is planned, financed with a loan and grant from the Western Balkans Investment Framework (WBIF), as well as the modernization of the railway infrastructure.

Regarding gasification, construction of national gas pipelines is planned on the sections Skopje - Tetovo, Gostivar - Kichevo and Sveti Nikole - Veles, as well as construction of Gas Interconnection Pipelines with Serbia and Greece.

More important projects in municipal and communal infrastructure are the Project for Improving Water Supply in Municipalities, as well as the Project for Energy Efficiency in the Public Sector, which is in the implementation phase

Major capital projects in the field of agriculture are the Irrigation Program of North Macedonia and the Agricultural Modernization Project.

In the field of environment, in addition to the major capital project for construction of a Wastewater Treatment Plant in Skopje, the Regional Solid Waste Project is also of great importance, which envisages the establishment of management systems, i.e. solid waste stations in the South-West Region, the Vardar Region, the Pelagonia Region, the South-East Region and the Polog Region.

In the area of establishing infrastructure for wastewater collection and treatment and establishing an integrated and financially self-sustainable waste management system, which meets EU requirements, significant capital projects that will be financed through the IPA 2 programs are: Rehabilitation and expansion of the sewage network in the City of Skopje; Project for construction of a wastewater treatment plant and rehabilitation and expansion of the sewage network in the Municipality of Tetovo; Rehabilitation and expansion of the sewage network in the Municipality of Kicevo; Construction of a wastewater treatment plant and rehabilitation and expansion of the sewage network in Bitola; Project for closure of landfills in the Eastern and Northeastern Region; Construction of a central waste management facility, construction of a sorting plant, MBT plant (mechanical-biological treatment plant), landfill, composting plant, green point for the Eastern and Northeastern Region in Sveti Nikole; Construction of six local facilities for waste management, transfer stations, composting plants and green points for the Eastern and North-Eastern 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 Radoviš, Kicevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo and Prilep and Preparation of project documentation for the improvement of the infrastructure for the collection and treatment of wastewater and the water supply network in the Municipality of Aracinovo.

In the area of education, in order to promote physical education and improve the overall learning conditions in primary and secondary schools, activities will continue within the framework of the Project for the construction of sport halls in primary schools and rehabilitation of primary and secondary schools, which will be financed with an additional loan from CEB, grant from WBIF and national co-financing. To efficiently and effectively implement the reforms in primary education in the country to improve learning conditions, the Government has secured an additional loan from the World Bank, which will continue activities within the framework of the Project for the improvement of primary education. In the area of higher education, the reconstruction of student dormitories will continue to improve the living and learning conditions of students, and reconstruction of state schools is also planned to adapt the living and learning conditions of students with special needs. In the area of equitable access to quality inclusive education at all levels, a significant capital project that will be financed through the IPA 2 program is reconstruction of public preschool institutions.

In the area of social protection, the implementation will continue of both, the Project for administration of social insurance and the Second project for improvement of social services, whilst completion is planned of the Project for improvement of social services. In the area of justice, activities will be carried out for the construction and reconstruction of the "Idrizovo" correctional facility to meet international and European prison standards, and to improve the conditions of residence and strengthen the protection of prisoners.

In the area of energy infrastructure, it is planned to finance the projects implemented by AD ESM, namely: Bogdanci Wind Farm - Phase 2, District Heating of Bitola, ESM Project for Transition to Solar Photovoltaics (Photovoltaic Power Plants 10MW Oslomej 2 and 20 MW Bitola), Revitalization of Six Large HPPs - Phase 3, as well as Photovoltaic Power Plant 134 MW Bitola 3.

In relation to reforms in public finance management, the Project for building effective, transparent and accountable institutions for public finance management will continue to be implemented, with the aim of improving the fiscal framework, strengthening the process of budget planning and execution, improving revenue collection, strengthening the public procurement system, strengthening internal and external control and transparent reporting.

In the past period, to support the private sector through the Development Bank of North Macedonia, six credit lines have been successfully secured and implemented from EIB in a total amount of 550 million euros. The seventh credit line in the amount of 100 million euros is also being implemented in this area, intended for financing the Project for small and medium-sized enterprises, mid-cap enterprises and green transition.

Table 4.9 Overview of Loan-Funded Projects

Project	Financed by	Loan amount (EUR)
Trade and Transport Facilitation Project in the Western Balkans	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
Project for Improving Water Infrastructure in the Municipalities of North Macedonia	EIB	50,000,000
Regional Solid Waste Project	EBRD	55,000,000
Energy Efficiency in the Public Sector Project	World Bank	25,000,000
Project for the Improvement of Social Services	World Bank	28,700,000
Second Project for the Improvement of Social Services	World Bank	27,500,000
Social Insurance Administration Project	World Bank	13,800,000
Agriculture Modernization Project	World Bank	46,000,000
Irrigation Program for North Macedonia	KfW	80,000,000
Reconstruction of Penitentiary Institutions Project	Council of Europe Development Bank (CEB)	46,000,000
Basic Education Improvement Project, with additional financing	World Bank	21,500,000
	World Bank	15,000,000
Project for Building Effective, Transparent, and Accountable Public Financial Management Institutions	World Bank	20,000,000
Project for the reconstruction of student dormitories in the Republic of North Macedonia, with additional funding	KfW	20,000,000
	KfW	40,000,000
Construction of Sports Halls Project	KfW	20,000,000
Rehabilitation of the Freight Rolling Stock of Railways of the Republic of North Macedonia Transport AD – Skopje	EBRD	20,900,000
Introduction of Rapid Bus Transit in the City of Skopje	EBRD	70,000,000
Project “Construction of a New Section and Reconstruction of the Existing Beljakovce – Kriva Palanka Section – Eastern Part of the Corridor 8 Railway,” Phase 2	EBRD	145,000,000
Project “Construction of a New Section and Reconstruction of the Existing Kriva Palanka – Deve Bair Section – Eastern Part of the Corridor 8 Railway,” Phase 3	EBRD	175,000,000
	EIB	175,000,000
Joint Railway Border Crossing Project – Tabanovce	EBRD	5,000,000

Projected deficit and its financing. Financing of the projected deficit, as well as refinancing of the debt repayments, will be provided by foreign and domestic borrowing (Table 4.10).

As regards financing the budget deficits in the period 2026-2030, the state is expected to borrow abroad, by both concluding loans for budget financing and issuing debt securities, as well as through disbursements extended by foreign financial institutions under favourable terms and conditions and credit lines intended for financing certain projects. Therefore, the choice of a specific external financing source will be based on the ongoing and the expected developments in the international capital market. Furthermore, borrowing on the domestic market will be made in the form of issuance of government securities or domestic loans, thus providing for additional financing under favourable terms and conditions. For optimizing 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 consider the possibility for early repayment of part of the debt, i.e. determining more favourable debt maturity, currency and interest structure.

Table 4.10. Deficit financing

	Final Account 2023	**Realization 2024**	**2025***	**2026***	**2027***	**2028***	**2029***	**2030***
Budget balance	**-41,410**	**-41,902**	**-41,350**	**-39,239**	**-35,761**	**-38,067**	**-37,861**	**-39,659**
Deficit financing	**41,410**	**41,902**	**41,350**	**39,239**	**35,761**	**38,067**	**37,861**	**39,659**
Inflows	**84,998**	**80,828**	**125,586**	**116,649**	**101,866**	**125,194**	**80,872**	**87,441**
Domestic sources	37,431	56,907	61,864	36,114	50,082	55,070	43,843	50,712
Foreign sources	61,855	45,062	39,423	85,004	56,700	67,801	29,200	39,500
Deposits ("-" is account accumulation)	-14,288	-21,141	24,299	-4,469	-4,917	2,322	7,829	-2,771
Outflows	**43,588**	**38,927**	**84,236**	**77,410**	**66,105**	**87,127**	**43,011**	**47,782**
Repayment after domestic borrowing	7,474	18,719	17,008	19,936	19,080	24,026	25,079	31,913
Repayment after foreign borrowing	36,114	20,208	67,228	57,474	47,025	63,101	17,932	15,869
Memorandum:								
Net domestic borrowing	29,957	38,188	44,856	16,178	31,002	31,044	18,764	18,799
Net foreign borrowing	25,741	24,854	-27,805	27,530	9,675	4,700	11,268	23,631

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

Local government budget. One of the priorities listed in the Government Program for the period 2024 - 2028 is developed local governments and balanced regional development. The main principles of the Government will be support for modern, transparent and financially stable municipalities and balanced development of all regions through a balanced distribution of funds between planning regions and municipalities.

In cooperation with local governments, the Government will work to deepen the decentralization process by continuously increasing the transfer of competencies from state administrative bodies to local self-government units in accordance with the built capacities of local self-government units.

The financial support and cooperation of the Government with municipalities in the period 2024-2028 will be aimed at: investing funds from the Central budget for capital infrastructure projects in municipalities up to Euro 250 million, increasing the financial stability of municipalities by enabling fair distribution of funds, while paying attention to the principles of balanced regional development, benefits and incentives for municipalities that have solid planned budgets, a high level of implementation, as well as a high level of collection of local taxes and an improved methodology for calculating the costs of maintaining educational facilities in municipalities, according to which funds are paid to them through block grants.

Capital investments are the key factors for improving the competitiveness of the economy and the quality of life of citizens. In the coming period, the Government commits to capital investments exclusively for productive projects: infrastructure and energy projects that will serve the business sector and capital projects of communal and other local infrastructure to improve the general living conditions of citizens.

During its mandate, the Government will also focus on revising the system of distribution of transfers from the Central budget to municipalities, which will be correlated with the efficiency in the collection of source revenues. Linking budget transfers to the success of municipalities in collecting their own source revenues will mean fair taxation and transfer of budget funds to municipalities.

It is expected that municipalities will continue to collect their own revenues better, but also to strengthen their capacities for developing municipal financing policies and financial management capacities. In the coming period, there will be a strong commitment to fostering sustainable local development, good local governance and creating conditions for a more active, effective and innovative role of local authorities in achieving national growth and development goals to achieve strategic commitments.

To achieve a more equitable distribution of grants among municipalities, the competent ministries will analyze the criteria according to which funds are distributed for individual transferred competencies and determine new distribution models according to needs, which will offer higher quality services.

In the coming medium-term period, stable revenues for municipalities will be provided by allocating funds from the lease of state-owned agricultural land, in a ratio of 50% for the Central budget and 50% for the municipalities and the municipalities in the City of Skopje, which are distributed depending on the location of the agricultural land that is subject to lease, provided that the realization of revenues from the real estate tax in the previous year is above 80% in relation to the planned revenues. Stable own revenues are provided from the funds allocated to the municipalities from the concession fees charged by using water resources to produce electricity, in a ratio of 50% for the Central Budget and 50% for the municipalities, depending on the area in which the concession activity is carried out.

In addition to support in terms of the transfer of responsibilities for collecting part of public revenues, as well as transfers from the Central Budget, assistance in building municipal capacities is also implemented through central government projects financed through international financial institutions.

Through the Local roads' connection project, which is part of the ongoing Cooperation framework with the World Bank and is being implemented through the Ministry of Transport, Euro 70 million are allocated to all 80 municipalities and the City of Skopje for the purpose of construction and rehabilitation of local roads and streets and other road infrastructure in the local self-government units. This direct assistance in the amount between Euro 0.5 - 2 million per municipality (depending on the project with which the municipality itself will apply), is working towards improving the local infrastructure in the municipalities.

In the coming period, the implementation of the Public sector energy efficiency project will continue, which is being implemented by the Ministry of Finance with support from the World Bank through the Loan agreement, in total amount of Euro 25 million. The main goal of the implementation of this project is to reduce energy consumption in the public sector, and at the same time improve the level and quality of public buildings and public lighting. All local government units have the right to use the funds from this component. The amount of the loan for a local government can vary from Euro 50.000 – 70.000, and it depends on the absorption borrowing capacity of the municipality and the estimated value of the proposed municipal project. By signing an agreement with the Ministry of Finance, the municipality will receive 80% of these funds as a sub-loan, while the remaining 20% as a grant. At the same time, the Ministry of Finance, within the funds provided for the Project, will also cover the costs of preparing an energy audit and technical documentation for the projects. An investment grant from the Western Balkans Investment Framework - WBIF instrument in the amount of Euro 2.14 million has been provided for this project.

With a loan of Euro 50 million provided by the European Investment Bank to finance the Municipal water supply improvement project, the Government will continue to provide support to all municipalities in order to build better water supply infrastructure and treatment plants. This project is implemented through the Ministry of Environment and Physical Planning.

In the area of environment, the large capital project for the construction of a Wastewater treatment plant in Skopje is being implemented, financed with a loan from the EIB in the amount of Euro 68 million, then a loan from the EBRD in the amount of Euro 58 million, as well as an investment grant from WBIF in the amount of Euro 69,784,283. In the area of solid waste management, the Regional solid waste project is of great importance, which envisages the establishment of management systems, i.e. solid waste stations, in the South-West, Vardar, Pelagonia, South-East and Polog regions, financed with a loan of Euro 55 million from the EBRD and an investment grant from the WBIF in the amount of Euro 22.5 million.

Table 4.11. Medium-Term Projection of Local Government Budget (Denar million)

	2022	2023	2024	2025*	2026*	2027*	2028*	2029*	2030*
Total revenues	**38,716**	**47,375**	**50,165**	**66,292**	**66,618**	**68,995**	**71,777**	**74,565**	**77,459**
Tax revenues	10,716	11,811	13,250	14,008	14,070	14,470	14,870	15,270	15,670
Non-tax income	1,419	1,585	1,474	2,883	2,943	3,163	3,383	3,603	3,823
Capital income	1,784	1,899	1,489	2,422	2,555	2,755	2,960	3,160	3,360
Transfers	24,105	30,347	33,261	45,619	45,850	47,207	49,064	50,932	52,906
Donations	692	1,733	691	1,360	1,200	1,400	1,500	1,600	1,700
Total expenses	**38,911**	**44,309**	**48,884**	**65,752**	**66,618**	**68,995**	**71,777**	**74,565**	**77,459**
Wages and allowances	19,899	23,981	27,321	30,878	32,380	33,302	34,484	35,782	36,876
Goods and services	9,900	9,832	9,586	12,616	12,665	13,100	13,550	14,000	14,750
Interest payments	37	67	98	108	110	110	110	110	110
Subsidies and transfers	2,857	3,421	3,589	4,776	4,730	4,850	4,980	5,100	5,320
Social transfers	67	71	74	103	90	90	90	90	90
Capital expenditure	6,151	6,937	8,216	17,271	16,643	17,543	18,563	19,483	20,313
Balance	**-195**	**3,066**	**1,282**	**540**	**0**	**0**	**0**	**0**	**0**

Source: MoF and MoF projections (*)

Public enterprises and trading companies owned by the state

The Government is the founder of 15 public enterprises and the sole shareholder/partner in 14 commercial companies, and they are fully (100%) state-owned. These entities employ around 14 thousand workers and represent a significant part of the Macedonian economy. Their activity is distributed across several sectors: energy and gas, transport, water management, media services and other activities of public interest.

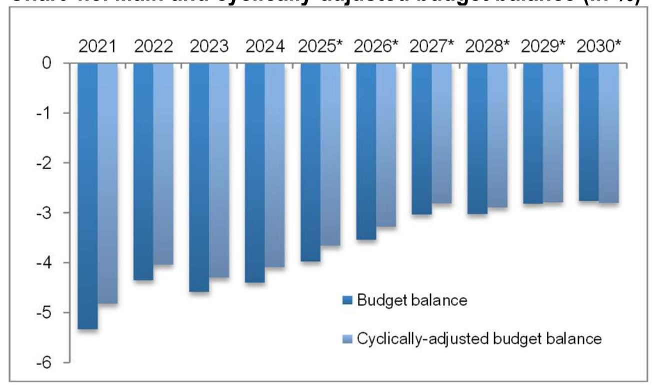
The operation of public enterprises and commercial companies in state ownership is regulated by the Law on public enterprises, the Law on commercial companies and other sectoral laws that regulate the activity of the enterprise, i.e. the company (Law on energy, Law on the railway system, Law on public roads, Law on water management, Law on forests, etc.).

According to the Law on public enterprises, and in order to promote transparency, public enterprises are obliged to publish annual and quarterly reports on their websites, which enables timely and transparent monitoring of the financial operations of these entities, while at the same time providing an opportunity for more realistic prediction of fiscal risk in this domain and its timely interception. The Ministry of Finance publishes data on the realization and plan of total revenues and expenditures on its website in accordance with the data presented in the financial plans, quarterly and annual reports of these entities. According to the data from the annual reports, the total revenues of public enterprises and state-owned commercial companies are planned in a total amount of 62.9 billion denars, while expenditures are projected at an amount of 53.4 billion denars. In the total planned amount of revenues for 2025, the share of commercial companies is 65.5%, while the share of public enterprises is 34.5%. In terms of planned expenditures, commercial companies participate with 76.1%, compared to public enterprises with a share of 23.9%.

4.5 Structural Deficit (cyclical component of the deficit, one-off and temporary measures, fiscal stance)

Economic activity, over time, tends to grow, but, moving along the trend line, the economy usually fluctuates above and below the long-term trend. Such cyclical developments in the economy are also reflected in the fiscal developments, through automatic stabilisers. In order to exclude the effects from fluctuations of economic activity on the fiscal indicators and to estimate the basic fiscal stance of the country, we calculate and analyse the cyclically adjusted budget balance, which is obtained by adjusting the budget revenues and the budget expenditures by the effect of deviation of the potential from the actual/projected GDP, whereby the adjustment is made on aggregate level for the central government budget as well.

Chart 4.5. Main and cyclically-adjusted budget balance (in %)



Source: Calculations by MoF. * forecast

In 2025, amidst deteriorated international environment and heightened uncertainty, as well as their adverse effects on the economic activity, GDP is expected to remain below the potential one, by which Budget cyclical component is negative, accounting for -0.3%. Thus, cyclically adjusted budget deficit accounted for 3.7% of the potential GDP (Chart 4.5)

In the period 2026-2028, in conditions when the production gap remains in the negative zone, automatic stabilisers have negative effect on the budget balance, whereby the calculated cyclically adjusted budget deficit is lower than the projected budget deficit, reaching 3.0% on average. In 2029 and 2030, the cyclical budget component is closing, while the cyclically adjusted budget deficit is equal to the total budget deficit. (Table 4.12.)

Table 4.12. Aggregate fiscal indicators (%)

	2025	2026	2027	2028	2029	2030
Total budget balance	**-4.0**	**-3.5**	**-3.0**	**-3.0**	**-2.8**	**-2.8**
Primary budget balance	-2.1	-1.6	-1.1	-1.0	-0.7	-0.6
Cyclical budget component	-0.3	-0.3	-0.2	0.1	0.0	0.0
Cyclically adjusted total budget balance	-3.7	-3.3	-2.8	-2.9	-2.8	-2.8
Cyclically adjusted primary budget balance	-1.7	-1.4	-0.9	-0.9	-0.7	-0.7

Source: Calculations of the Ministry of Finance
Note: Data on cyclically adjusted total/primary budget balance are expressed in relation to the potential GDP.

4.6 Public Debt Management, Stock and Projections of Public Debt Trends

Institutional Framework. Dedicated organisational unit within the Ministry of Finance, i.e. Public Debt Management Department (PDMD), performs the activities related to debt management in the country. The Department carries out the activities related to borrowing by the state for the purpose of financing the budget needs by both issuing government securities on the domestic and the international financial markets and/or concluding loan agreements with domestic and foreign creditors. Moreover, PDMD is also in charge of making public debt management policy on the basis of assessment and analysis of the debt portfolio risks, as well as servicing the general government debt. It also keeps Public Debt Registry which, in addition to general government debt, also includes the guaranteed and the non-guaranteed debt, and is, as well, engaged in the process of issuance of sovereign guarantees to public debt issuers.

Legal Framework. As regards the legal framework, Public Debt Law is the underlying law regulating the purposes of general government debt, the procedure and the method of borrowing by public debt issuers, the procedure for issuance, servicing and termination of sovereign guarantees, as well as public debt transparency. Furthermore, Law on Financing Local Government stipulates limits on long-term and short-term borrowing by the municipalities, while the Organic Budget Law lays down fiscal rules according to which total debt of the general government may not exceed 60% of nominal GDP and guaranteed debt may not exceed 15% of nominal GDP. Maximum amount of borrowing in the current fiscal year is set at the amount necessary for financing the budget deficit and refinancing the general government debt liabilities falling due in the current and the next two fiscal years.

Public Debt Management Strategy is a separate document, which defines the debt management policy in the course of 3 years with additional 2-year prospects, provides data on debt trends in the past period and forecasts for both the general government debt and the public debt and sets short-term and medium-term limits and objectives of specific debt indicators related to public debt level and debt structure.

As regards debt transparency, Ministry of Finance prepares Annual Report on Public Debt Management, presenting in details the features of the debt portfolio and the measures undertaken for its efficient management. In addition, it regularly publishes data on the stock and the structure of the general government and the public debt on its website.

Debt data the Ministry of Finance publishes are in line with the national methodology set in the Public Debt Law according to which general government debt comprises all financial liabilities incurred on the basis of borrowing by central government entities, local government and extra-budgetary funds, while public debt comprises liabilities incurred on the basis of general government debt and the debt of public enterprises established by the state or the municipalities.

To the end of aligning this methodology with the ESA 2010 methodology, Organic Budget Law outlines new definition on general government debt, hence, it will encompass consolidated financial liabilities incurred on the basis of borrowing by general government entities, i.e. institutions classified in General Government Sector (S.13), as per the SSO National Classification of Institutional Sectors. Such defined debt will be subject to monitoring as regards the adherence to the above-mentioned fiscal rules on general government debt.

General Government Debt and Public Debt. Trends of general government debt and public debt in the Republic of North Macedonia are determined by the medium-term budget framework and the implementation of capital projects financed by borrowing. In fact, global economic crisis triggered by the COVID-19 pandemic, followed by the energy crisis caused by the war conflict in Ukraine, led to inflationary pressure on the global economy, forcing most of the European Union countries, as well as the countries in the region, to widen their budget deficits so as to provide funding for overcoming the consequences from these shocks. At most of the economies, this resulted in increased level of public debt by around 10 percentage points. Republic of North Macedonia was not an exception to this trend, hence, with a budget deficit of 8% of GDP, general government debt and public debt increased by significant 10 p.p. in 2020 compared to 2019. Furtehrmore, in the period that followed, the reduction of the negative budget balance resulted in slowing down the raising trend of the debt. Hence, as of Q3 2025 inclusive, general government debt amounted to EUR 8,498.1 million, i.e. 50.3% of projected GDP, with public debt amounting to EUR 9,730.1 million, accounting for 57.6% of projected GDP.

Compared to end-2024, government and public debt-to-GDP ratio dropped by 2.7 p.p. and 3.8 p.p. respectively. (Table 4.13)

Table 4.13. Trends of General Government Debt and Public Debt (2015 - Q3 2025)

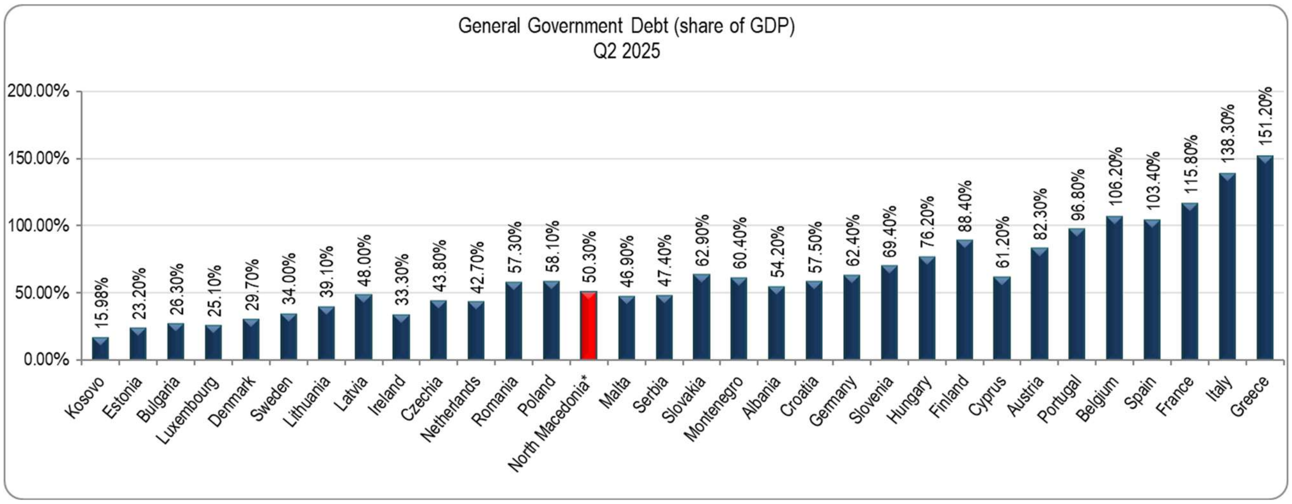
EUR million	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Q3-2025
External Public Debt	**2,847.5**	**3,286.0**	**3,187.5**	**3,537.8**	**3,709.3**	**4,323.7**	**4,668.9**	**5,055.5**	**5,345.4**	**5,825.1**	**5,489.7**
General Government Debt	2,096.7	2,446.6	2,376.8	2,695.0	2,763.5	3,382.5	3,648.9	3,983.7	4,171.0	4,617.7	4,399.7
Guaranteed Debt	750.8	839.4	810.7	842.7	929.9	920.0	999.9	1,048.9	1,149.7	1,182.5	1,063.3
Non-Guaranteed Debt	N/A	N/A	N/A	N/A	15.9	21.2	20.2	22.9	24.7	24.9	26.7
Domestic Public Debt	**1,379.7**	**1,425.4**	**1,599.4**	**1,664.4**	**1,831.6**	**2,159.6**	**2,466.4**	**2,647.4**	**3,131.4**	**3,794.3**	**4,240.4**
General Government Debt	1,356.6	1,404.9	1,581.7	1,649.4	1,793.3	2,133.4	2,431.4	2,597.4	3,085.1	3,680.3	4,098.4
Guaranteed Debt	23.2	20.5	17.7	15.0	12.3	9.5	7.5	4.8	1.4	81.9	112.1
Non-Guaranteed Debt	N/A	N/A	N/A	N/A	26.0	16.6	27.5	45.2	45.0	32.1	29.9
Public Debt	**4,227.2**	**4,711.4**	**4,786.9**	**5,202.2**	**5,540.9**	**6,483.3**	**7,135.3**	**7,702.9**	**8,476.8**	**9,619.4**	**9,730.1**
as % of GDP	46.6	48.8	47.7	48.4	49.2	59.7	60.3	58.2	57.8	61.4	57.6
General Government Debt	**3,453.3**	**3,851.5**	**3,958.5**	**4,344.4**	**4,556.8**	**5,516.0**	**6,080.2**	**6,581.1**	**7,256.2**	**8,298.0**	**8,498.1**
as % of GDP	38.1	39.9	39.4	40.4	40.5	50.8	51.4	49.7	49.5	53.0	50.3
Guaranteed Debt	**774.0**	**859.9**	**828.4**	**857.7**	**942.2**	**929.5**	**1,007.4**	**1,053.7**	**1,151.0**	**1,264.4**	**1,175.4**
as % of GDP	8.5	8.9	8.3	8.0	8.4	8.6	8.5	8.0	7.8	8.1	7.0
Non-Guaranteed Debt	**N/A**	**N/A**	**N/A**	**N/A**	**41.9**	**37.8**	**47.7**	**68.2**	**69.7**	**57.0**	**56.6**
as % of GDP	N/A	N/A	N/A	N/A	0.4	0.3	0.4	0.5	0.5	0.4	0.3

Source: Ministry of Finance and National Bank of the Republic of North Macedonia

Compared to the level of debt of the EU Member States and the countries in the region, Republic of North Macedonia is a moderately indebted country (Chart 4.6). Republic of North Macedoni remains to be moderately indebted as a result of the commitment to conduct a disciplined fiscal policy in the coming period.

Public debt trends in the coming period will reflect medium-term budget framework, refinancing needs with respect to previously incurred debts and implementation of capital projects. In the coming medium-term period, implementation of new and already commenced investment projects in road and railway infrastructure, education, health, energy, environment, reforms in agriculture and social sectors, development of municipalities and other projects in line with the strategic priorities and priorities of the Government of North Macedonia are expected to continue, co-financed with foreign loans, thereby being strongly committed not to jeopardise the long-term sustainability of the debt level of the country. The projects will be implemented by the state administration bodies, the municipalities, the public enterprises and the companies being predominantly owned by the state. In addition to investment projects, part of the borrowing is aimed at covering the budget deficit, i.e. providing for uninterrupted Budget execution. Furthermore, part of the borrowing will be also intended for repayment of debt liabilities falling due in the coming period. In the period 2026 - 2028, around EUR 2,683.7 million is to be repaid on the basis of prior foreign borrowing, including the Eurobond in the amount of EUR 700 million, issued in 2020, to be repaid in June 2026, the Eurobond in the amount of EUR 500 million, issued in 2023, to be repaid in March 2027, the Eurobond in the amount of EUR 700 million, issued in 2021, to be repaid in March 2028, as well as repayment of other forex debt liabilities.

Chart 4.6. General Government Debt of EU Member States and Countries in the Region (% of GDP)

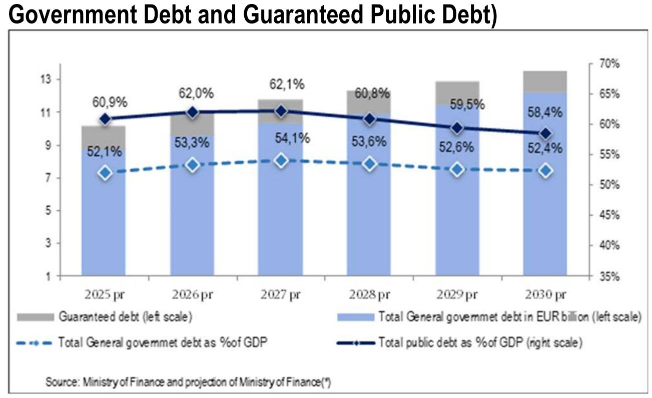


*Data on North Macedonia pertain to the second quarter in 2025
Source: Ministry of Finance, Eurostat, October 2025

In order to keep sustainable level of public debt, without thereby disrupting the fiscal sustainability, the Revised Public Debt Management Strategy of North Macedonia for the period 2026-2028 (with 2030 prospects) sets for the limit on total public debt level not to exceed 60% of GDP, on medium term. According to the medium-term projections prepared on the basis of the medium-term budgetary framework - which reflects the need to finance budget deficits over the medium term, the requirements for repayment of existing debt, as well as the implementation of projects outside the central government - public debt is expected to exceed the maximum threshold of 60% of GDP by 2028. Specifically, public debt is projected to amount 62.0% of GDP in 2026, 60.1% in 2027, and to record a moderate decline in 2028, reaching 60.9% of GDP as a result of gradual fiscal consolidation. The downward trend is expected to continue in 2029 and 2030, when public debt is projected to stabilize and fall below the 60% of GDP limit, reaching 58.4% of GDP in 2030. (Chart 4.7)

Sovereign Guarantee Debt. Issued sovereign guarantees are a contingent liability for the State Budget and a risk to increasing the budget expenditures in case they are called up. Therefore, the Ministry of Finance pays special attention to the amount of issued guarantees to be at a sustainable level over the medium term, focusing in particular on projects that are self-sustainable and generate revenues, at the same time underpinning the economic growth and providing for boosted competitiveness of the domestic economy. Moreover, when issuing sovereign guarantees, Ministry of Finance, in line with the Rulebook on the Manner of Analysing Data Submitted by the Public Debt Issuer, the Application and the Valuation of Financial Ratios ("Official Gazette of the Republic of North Macedonia", no. 198/2020), performs credit analysis and assesses the creditworthiness of public debt issuer - beneficiary of sovereign guarantee. The assessment encompasses detailed analysis of its financial balance sheets, including analysis of liquidity, solvency and profitability indicators.

Chart 4.7. Projections for Total Public Debt (General Government Debt and Guaranteed Public Debt)



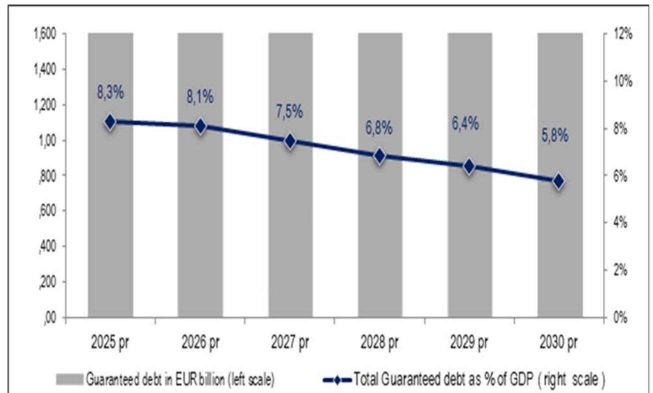
As of Q3 2025 inclusive, issued sovereign guarantees amounted to EUR 1,175.4 million, i.e. 7.0% of GDP, declining by 1.1 p.p. compared to the stock of guarantees at the end of 2024. Most of the sovereign guarantees, i.e. 62.54%, is issued for financing investment projects in road infrastructure, with remaining 19.46% for financing projects aimed at supporting SMEs, 17.15% for funding projects in the field of energy and 0.84% for financing projects in the field of railway infrastructure.

To the end of maintaining a sustainable level of the amount of guaranteed debt, under the Revised Public Debt Management Strategy, a limit on the amount of guaranteed public debt over the medium term is set not to exceed 15% of GDP.

In the period 2026 - 2030 the guaranteed debt is expected to moderately increase by 2026, and starting in 2027, it is anticipated to stabilise and drop to 5.8% of GDP in 2030. Thereby, level of guaranteed debt throughout the whole period is below the set maximum limit of 15%. (Chart 4.8).

General Government Debt Structure and Risks Associated with Debt Portfolio. General government debt structure of the Government of the Republic of North Macedonia reflects the medium-term limits sets under the Revised Public Debt Management Strategy, being defined on the basis of detailed analysis of the debt portfolio exposure to market risks arising from the changes of interest rates on domestic and international capital markets, risks associated with the trends of foreign exchange rates and re-financing risk.

Chart 4.8. Guaranteed Debt



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

Taking into account that the changes in the foreign exchange rates may provide for increased costs for foreign currency debt repayments, as well as given the exchange rate peg to the euro as applied by the Republic of North Macedonia since 1995, foreign currency general government debt limit is set under the Revised Public Debt Management Strategy, i.e. minimum threshold of euro-denominated debt in the foreign currency general government debt portfolio is projected to account for 80%. As of Q3 2025 inclusive, Denar-denominated debt accounts for 36.8% of the total general government debt, with foreign currency debt accounting for 63.2%. The share of euro-denominated debt in the foreign currency general government debt portfolio accounted for 93.4%, significantly above the limit of 80% determined under the revised Strategy and, compared to end-2024, it increased by 1.2 p.p..

For the purpose of minimising the adverse effects from the ongoing increase of interest rates on interest-related costs in the Budget from potential market shocks triggered by the unfavourable changes of the interest rates, general government debt interest structure limit is set under the revised Strategy, as per which the minimum threshold of the fixed interest rate debt accounts for 60%. As of Q3 2025 inclusive, fixed interest rate debt accounted for 78.1% and compared to end-2024, it surged by 0.6 p.p..

For the purpose of further smoothening the redemption profile and reducing the re-financing risk, as well as generating additional interest savings, in the coming period, Ministry of Finance will continue considering the possibilities and the conditions for optimisation of debt-servicing costs by actively managing the debt portfolio. In the coming period, Ministry of Finance will also continue considering the possibility and the conditions for debt restructuring by actively managing the debt portfolio.

Primary Government Securities Market. In 2025, Ministry of Finance regularly issued 12-month government securities without a forex clause, as well as 2-year, 3-year and 5-year government bonds, and 15-year government bonds with and without forex clause. The frequency of government securities auctions was determined in accordance with the Calendar for Issuance of Government Securities.

The total amount offered for sale at the seventeen (17) government securities auctions held up to 30 September 2025 amounted to Denar 66,709.61 million, with demand of Denar 66,709.61 million and realized sales of Denar 66,709.61 million.

In the course of 2025, the Ministry of Finance carried out measures adopted under the Denarisation Strategy, i.e. issuance was focused on Denar-denominated securities which, as of the third quarter inclusive, amounted to EUR 3,119.6 million as opposed to EUR 879.4 million issued through government securities with forex clause.

Interest rates on government securities in the domestic market during 2025 showed an increasing trend. As of September 2025 inclusive, stock of outstanding government securities amounted to EUR 3,999.0 million, of which EUR 847.9 million are treasury bills, and EUR 3,151.1 million are government bonds.

Secondary Government Securities Market. Legal regulations on secondary trading in the Republic of North Macedonia provide for trading in all structural government securities and continuous government bonds on the Macedonian Stock Exchange AD, as well as trading in continuous government securities on over-the-counter markets.

In the period January - September 2025, the Macedonian Stock Exchange AD Skopje had a total turnover of EUR 922.88 thousand from trading with government bonds. From the total turnover achieved, there was no trading in structural government bonds, while EUR 915.17 thousand is turnover from denationalization bonds and EUR 7.70 thousand is turnover from continuous government securities

International Capital Market. By September 2025, three Eurobonds issued by the Republic of North Macedonia, falling due in 2026, 2027 and 2028, were traded on the international capital market. The yields for the three Eurobonds accounting for 3.895%, 4.050% and 4.198%, respectively, on 30th September 2025.

Credit Rating of the Republic of North Macedonia. In March 2025, "Fitch" Credit Rating Agency awarded the Republic of North Macedonia with "BB+" rating with a stable outlook. In September 2025, "Fitch" Credit Rating Agency affirmed the previously awarded credit rating grade to the Republic of North Macedonia.

In January and July 2025, "Standard & Poor's" Credit Rating Agency affirmed Republic of North Macedonia's previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country's stable outlook.

4.7 Sensitive Analysis and Comparison with the Previous Programme

Sensitivity of Budget Deficit. Medium-term economic projections are based on certain assumptions, primarily on macroeconomic environment, designing of economic policies and their implementation, as well as the absence of greater shocks.

Medium-term economic and fiscal projections are always accompanied by certain level of uncertainty and risks. The possible occurrence of these risks would result in deviations from the baseline medium-term scenario, i.e. different movements of the key fiscal variables.

Therefore, this section includes an overview of the results from the sensitivity analysis, examining the central government budget deficit sensitivity under three risk scenarios, which assume different conditions than the ones taken as basis for medium-term projections discussed above. Thereby, all risks are analysed separately, and all scenarios assume absence of other deviations from the baseline scenario.

Taking into account that medium-term fiscal scenario is based on certain macroeconomic assumptions, they are considered to be primary factor with a potential effect on the fiscal trends. Hence, as a first risk scenario, we assume the materialisation of downside risks in relation to the external environment, according to the first alternative scenario explained in point 3.3. Under this scenario, projected average annual real GDP growth in the period 2026 - 2030, accounts for 3.1%, i.e. being by 1.0 p.p. lower compared to the baseline scenario. Thereby, the potential lower economic growth would also imply a lower performance of the cyclical component of the budget revenues. Thus, this scenario would result in budget deficit of 3.7% of GDP on average annually in the coming five-year period, i.e. deficit widening by 0.7 p.p. on average compared to the baseline projections. Table 4.14 shows the budget deficit in this period according to the baseline and the risk scenarios.

The second risk scenario assumes lower execution of capital expenditures, according to the second alternative scenario explained in point 3.3, i.e. their execution, accounting for approximately 75% in relation to those projected in the baseline scenario. Lower execution of capital expenditures would cause a slowdown of growth of gross investments, and accordingly a lower real GDP growth rate in relation to the baseline scenario, by an average of 0.5 p.p. per annum in the period 2026-2030. This scenario would adversely affect tax revenues as well, which would exceed the effect of the reduced expenditures. Therefore, according to this scenario, budget deficit would worsen by 0.4 p.p. on average annually compared to the baseline scenario in the analysed period.

Table 4.14. Sensitivity Analysis of Budget Deficit

	2026	2027	2028	2029	2030
Budget deficit (% of GDP)					
Baseline scenario	-3.5	-3.0	-3.0	-2.8	-2.8
Scenario 1. Lower economic growth	-4.1	-3.8	-3.5	-3.4	-3.7
Scenario 2. Lower execution of capital expenditures	-3.9	-3.6	-3.2	-3.0	-3.3
Scenario 3. Lower collection of tax revenues	-4.5	-4.0	-4.0	-3.8	-3.8

Source: Calculations of the Ministry of Finance

The third scenario assumes a reduced collection of total tax revenues by 5% per year in the analysed period compared to the baseline scenario. In conditions of unchanged level of budget expenditures and unchanged economic growth, lower tax revenues would lead to higher budget deficit, which would account for 4.0% of GDP on average annually during the analysed period, thus reaching the level of 3.8% of GDP in 2030.

Materialisation of any of the above risk scenarios in the upcoming period would result in relatively limited effects on the budget deficit, i.e. sustainability of fiscal policy in the medium term is in no case disrupted.

Public Debt Risks. Uncertainty arising from the future trends of macroeconomic variables on the international capital market significantly affects the decision making for efficient management of debt portfolio of the country. In conditions of large oscillations of economic variables, need arises to actively manage risks which public debt portfolio in the Republic of North Macedonia is exposed to. Main risks identified when managing this portfolio are re-financing risk, market risk, including interest rate risk and exchange rate risk, risk associated with contingent liabilities and operational risk.

Public Debt Sensitivity. In order to analyze the exposure of debt portfolio of the Republic of North Macedonia to the market risk, i.e. the risk of changes in interest rates and foreign exchange rates, short simulation is prepared regarding the effects of variation of interest rates and changes in foreign exchange rate on the costs related to servicing the external general government debt (Table 4.15). Sensitivity analysis of the trends at the servicing-related costs in the Budget of the Republic of North Macedonia on the basis of external debt is based on the following assumptions: by changing one variable, all other variables remain unchanged, (ceteris paribus); in conditions of potential trends in the other currencies in relation to the euro, Denar exchange rate in relation to the euro retains the stable value, and non-correlation between interest rate trends and trends in the foreign exchange rate.

The analysis covers the period 2026-2030, being based upon scenarios of increase of interest rate by 1 p.p. compared to the baseline scenario, as well as euro depreciation by 10% compared to the other currencies.

Table 4.15. Sensitivity analysis of servicing-related costs of the external general government debt when changes occur in both the interest rates and the foreign exchange rates

Index figures	2026	2027	2028	2029	2030
Baseline Scenario	100.0	100.0	100.0	100.0	100.0
Scenario 1: Increased interest rates on 1 percentage point	106.1	105.2	105.6	105.9	107.2
Scenario 2: Appreciation of other currencies under the portfolio in relation to the euro by 10%	100.8	101.4	100.8	100.7	100.3

Source: Calculations of the Ministry of Finance

Main conclusions that may arise from this analysis are the following:

- amount of interest-related costs on the basis of external general government debt are significantly sensitive to the interest rate trends. Should interest rates in 2026 surge by 1 percentage point in relation to the baseline projection, it would cause for interest-related costs to increase by 6.1%, i.e. by EUR 8.9 million, with similar effects in the period 2027-2030.
- potential euro depreciation in relation to the other currencies in the portfolio (US dollar, Japanese yen and Special Drawing Rights) by 10% will cause an increase of servicing-related costs by 0.8% in 2026, i.e. by EUR 8.1 million. Given the obtained results, it may be concluded that possible unfavourable trends at exchange rates of other currencies in relation to the euro will not cause any significant increase of the servicing–related costs, as a result of the fact that most of the external general government debt is euro-denominated.

4.8 Quality of public finances

Fiscal policy in the coming medium-term period will be aimed at creating preconditions for ensuring a significant level of public investments, which are the basis for improving economic prospects and a better life for citizens.

Through continuous support and investments in infrastructure projects, conditions for economic growth will be created, i.e. enabling businesses growth and creating new jobs. Additionally, strategic planning of large infrastructure projects will enable more realistic planning and execution of capital expenditures.

The medium-term fiscal projections have a strong development component and an improved structure of the expenditure side of the Budget by increasing the share of capital expenditures from 4% to 5% of GDP annually and represent key elements of public finances.

Analyzed according to priority areas, the focus of fiscal policy is the continuous provision of an increased financial resources for the areas of education, health and social protection, which ensures a significant participation of these functional areas in the structure of public expenditures in the direction of higher quality public finances.

To strengthen the fiscal responsibility of municipalities, the amendments to the Law on financing of local self-government units increase the transparency of the work of municipalities, i.e. municipalities have an obligation to transparently publish financial data on their websites, as well as accountability in the spending of all funds allocated to them by the state. Data on the execution of municipal revenues and expenditures and on arrears reported in the Electronic system for reporting and recording of liabilities on a quarterly basis are published on the website of the Ministry of Finance, and the year-end financial statements of the municipalities are included as an annex to the year-end financial statement of the state budget. With support from UNDP, financial data from the periodic financial reports of about 55 municipalities have been published on their websites and the Ministry of Finance website.

According to the Law on reporting and recording of liabilities, public enterprises and state-owned commercial companies are obliged to report monthly the undertaken but unfulfilled liabilities and the due but unpaid liabilities in the Electronic system for reporting and recording of liabilities, which is maintained by the Ministry of Finance. Based on the recorded data on reported liabilities, the Ministry of Finance continuously publishes summary reports on its website on a quarterly basis, which additionally contributes to strengthening and increasing transparency.

The Government, as the founder of public enterprises and state-owned commercial companies, continuously monitors their financial operations through year-end financial statements and annual reports, quarterly reports, financial plans and investment programs, during the review and approval of which, indications and remarks are given to the competent bodies of the enterprise/company, for reducing unproductive expenditures, taking measures to collect unpaid receivables and timely settlement of liabilities.

The amendments to the Budget Law provide for provisions aimed at consistent monitoring of the financial operations of enterprises and companies in full and dominant state ownership and companies established by them, timely and coordinated planning of the current and investment activities of these entities in accordance with the strategic plans, the outlined policies of the Government and the adopted strategies in the field of their operations. It is of particular importance that the planned investment activities in the programs of these entities, which are financed with budget funds, are timely and realistically dimensioned and incorporated into the budget process to achieve their successful implementation, in accordance with the planned dynamics and the established action plans. In this process, in addition to the Government and the Ministry of Finance, line ministries responsible for the current and medium-term implementation of the strategic priorities in their domain are also important actors.

The modern concept of public financial management designed in the Budget Law is aimed at improving public financial management and strengthening medium-term budgeting, as one of the Government priorities in the EU accession process. This concept also covers public enterprises and state-owned companies as a significant segment in the public sector, so the planned activities in the coming period are aimed at strengthening medium-term planning among these entities, especially in capital investments.

In order to implement Article 20 of the Law on Budgets, which refers to medium-term priorities and the procedure for selecting new public investment projects, in April 2025 the Government adopted the Decree on Public Investment Management. The Decree regulates the manner, content, procedure and criteria for defining, preparing, reviewing, assessing, and determining priority public investment project proposals, as well as the processes of implementation, monitoring and reporting on their implementation and ex-post review of public investment projects. This establishes standardized procedures for preparing, assessing and selecting infrastructure projects, thus enabling the Government to prepare a final priority list of public investment project proposals. In July 2025, the Ministry of Finance published on its website a Guide for Preparing feasibility studies and a Manual on the public investment management process. In September 2025, the Government xac established the Public investment committee, as a permanent interdepartmental working body, whose main role is to ensure efficient management of public investment projects. During 2025, trainings were conducted for relevant institutions on the application of the new procedures for the preparation and monitoring of public investment projects prescribed by the Decree on public investment management. The Ministry of Finance remains committed to strengthening the administrative capacities to perform functions related to public investment management.

In the area of tax policy, more specifically in international taxation, the Law on a Minimum Global Corporate Income Tax (published on January 3, 2025, Official Gazette 3/2025) has been adopted, the fiscal implications of which for 2026 were estimated at Denar 1.6 billion. The Law aligns with European legislation, and stipulates rules for the payment of top-up tax in order to ensure minimum effective taxation of the profits of constituent entities that are members of a group of multinational companies or a large domestic group, which achieve annual consolidated revenues of at least Euro 0.75 billion in at least two of the last four fiscal years, by introducing a minimum effective corporate tax rate of 15% at the global level.

4.9 Fiscal management and budget frameworks

In order to ensure the sustainability of fiscal policy in the medium term, the fiscal projections provide a framework for achieving numerical fiscal rules, designed to be aligned and consistent with the EU fiscal rules.

In the medium term, the fiscal policy envisages a phased fiscal consolidation. In doing so, the budget deficit is reduced as a percentage of GDP, from 3.5% in 2026, 3.0% in 2027 and 2028, and 2.8% in 2029 and 2030.

The fiscal strategy deviates from the fiscal rules in 2026, in terms of the budget deficit and public debt, but has a clear trend of gradual convergence towards them in that period. According to the projections in the Fiscal Strategy, the fulfillment of the fiscal rule for the budget deficit is planned to be achieved in 2027.

A Fiscal Council has been established as an independent institution, a separate budget user, which already provides independent and professional analyses and opinions on macroeconomic and fiscal assumptions, the fiscal strategy, the budget, budget implementation reports, fiscal risks, etc.

With the adopted amendments to the Budget Law, amendments and supplements are made to the provisions of the existing law, thus ensuring continuity of the obligation for the purposeful, rational, economical and efficient use of the approved funds by public entities, i.e. prolongation of the deadline for the commencement of the application of the Law on Budgets from 01.01.2028. Additionally, the appropriate by-laws have been adopted in accordance with the Reform Agenda.

Strengthening the capacities for monitoring and analysis of fiscal is being done with the technical support of the IMF FAD (Fiscal Affairs Department). The Ministry of Finance recognizes the importance of establishing IFMIS for improved monitoring and control of fiscal risks, including those related to public infrastructure projects, overdue liabilities and state-guaranteed loans to public enterprises. Strengthening fiscal risk management is a key element of the ongoing reform of the public finance management system. In this regard, the IFMIS project aims to provide timely, accurate and comprehensive financial data, which will significantly improve fiscal oversight and decision-making in the public sector. The Ministry continues with activities to build this project in cooperation with the World Bank by examining the possibility of using a new instrument for implementation and harmonization with the legal framework.

The Public Finance Management Reform Program covers all aspects of PFM. The objective of the Program is to improve the fiscal framework, strengthen the process of planning, execution and reporting on public finances, increase revenue collection, improve the public procurement system and strengthen internal and external control by increasing transparency and accountability in operations are identified as one of the key objectives of the Government, which should ensure accelerated and sustainable economic growth, higher living standards and quality of life of citizens. This includes maintaining a stable budget in the long term, while continuing to provide quality and timely services to citizens and business entities, through modern and efficient public administration, based on digitalization. Further improvement of public finance management is necessary not only to support measures aimed at fiscal consolidation and structural reforms, but also as a process that improves the quality of public administration and provides an attractive and desirable environment for investors. The Government has also developed subsystem reform strategies in the areas of public internal financial control and the tax system.

4.10 *Sustainability of Public Finances*

Calculations for long-term sustainability of public finances are based upon the following assumptions:

- average labour productivity growth of 4.4%;
- increase of male participation rate (from 78.6% in 2020 to 74.4% in 2060);
- more intensive increase of female participation rate (from 56.2% in 2020 to 72.6% in 2060), by which share of female population in the total active population is expected to reach 48.2% in 2060;
- reduction of unemployment rate with higher intensity by 2030, projected at 7.3% the same year, and with lower intensity in the upcoming years, whereby unemployment rate is projected at 5.6% in 2060;
- gradual increase of the share of population above 65 years of age, reaching around 30% in 2060.

On the basis of the employment and wage growth projections in the country, an average annual growth of 5.4% of revenues on the basis of pension insurance contributions is envisaged in the analysed period, with their share in GDP accounting for 5.1%. As for pension-related expenditures, it is worth mentioning that only those of the Pension and Disability Insurance Fund have been taken into account. Taking this into account, and according to the projected demographic trends, 6.3% average annual increase of pension-related expenditures is envisaged in the analysed period, which is expected to account for 11.3% in 2060. Public expenditures for health protection as percentage of GDP are projected to remain stable and reach 6.7% in 2060. Education-related expenditures are envisaged to increase by 6.8% on average annually in the next forty years, thus, their share in GDP is expected to reach 5% in 2060. Interest-related costs are envisaged to account for 2.0% of GDP on average in the analysed period, in line with the projected trend of budget balance, i.e. general government debt and projected effective interest rate.

5A. Consistency of the Reform Agenda with the ERP's macro-fiscal framework

According to the EC Guidance Note for the preparation of the Economic Reform Programme 2026–2028, this section should elaborate the links between the reforms set out in the country's Reform Agenda and the medium-term macroeconomic and fiscal policy framework, namely the quantification of the economic and fiscal impact of the reforms. For countries benefiting from funds under the Western Balkans Growth Plan, this requirement applies to the reforms presented in their respective Reform Agendas.

The Reform Agenda 2024–2027 represents a strategic and operational document through which the Republic of North Macedonia specifies its commitment to strengthening institutional, economic, and social capacities in the context of integration into the European Union. It forms part of the broader European Growth Plan for the Western Balkans, an initiative of the European Commission aimed at accelerating the region's convergence with the EU through financial support and structural reforms.

The main objective of the Reform Agenda 2024–2027 is to accelerate the country's convergence with European standards and enhance its economic and administrative functionality. Implementation of the Reform Agenda is expected to increase transparency and trust in institutions, modernize and improve the efficiency of public administration, promote balanced economic competitiveness and job creation, strengthen infrastructure and digital connectivity, increase the use of EU funds, and improve preparedness for EU membership. Additionally, the reforms have a social dimension, aiming to improve quality of life, strengthen human capital, and foster social cohesion.

The selected reforms fall within the five thematic areas defined in the Reform Agenda, which frame the European integration process: 1/Public administration reform and Public finance management, 2/Energy/Digital transition, 3/Human capital, 4/Private sector development and business environment, and 5/Fundamentals/Rule of law. In assessing the economic impact, certain reforms that had already been included in the previous Economic Reform Programme were reassessed, primarily taking into account additional available information and data.

Reforms 1.1.2: Strengthen the public procurement system and 1.1.3: Full implementation of the 2022 Organic Budget Law, including reform in Public Investment Management

The objective of the public procurement system reform is to ensure that public funds are spent in an effective, efficient, transparent, and rational manner. In 2022, the public procurement market in the country amounted to 8.4% of GDP and 23.3% of total general government expenditure. Of the total value of public procurement, 57% was awarded to small and medium-sized enterprises (SMEs), indicating their significant role in the economy and the increasing inclusiveness of the public procurement market. Although the national legal framework is largely aligned with the 2014 EU Directives and provides a solid basis for ensuring transparency and increasing value for money in public procurement, the use of the "Most Economically Advantageous Tender" (MEAT) award criteria remains limited. Specifically, the share of the value of public procurement contracts awarded using MEAT criteria amounted to approximately 9% in 2023, preventing the country from fully exploiting the opportunities introduced by the new legislation. Increasing the use of MEAT criteria will contribute to greater efficiency of public spending, as it enables the selection of offers providing the best price–quality ratio rather than focusing exclusively on the lowest price. This approach promotes higher-quality public services, long-term investment sustainability, and more rational use of budgetary resources.

The following steps are envisaged for the implementation of this reform: reducing the use of e-auctions to 40% of total procurement, increased use of the E-market system, and increasing the share of procurement (at least 25% in value) applying MEAT criteria based on the best price–quality ratio or the most cost-effective approach. Projections for the period 2024–2027 indicate a gradual increase in the share of such contracts in the total value of procurement contracts, from around MKD 10 billion in 2024 to over MKD 20.8 billion in 2027.

The application of MEAT criteria in public procurement implies an improvement in the technical quality of tender documentation, taking into account not only price, but also innovative solutions, as well as economic, social and environmental considerations. Moreover, the use of the MEAT procedure ensures more predictable maintenance costs, as well as greater durability and longevity of procured goods, thereby preventing future underperformance or even higher costs.

This reform is complementary to the reform aimed at improving public investment management. Pursuant to the Budget Law, a Public Investment Management Department was established within the Ministry of Finance, and a Regulation on Public Investment Management was adopted. In performing its public investment management functions, the Public Investment Management Department within the Ministry of Finance provides opinions and recommendations on projects qualifying as public investments, prepares a consolidated list of proposed and appraised new public infrastructure projects, consolidates the list of priority public infrastructure projects, carries out central oversight of the national public investment portfolio, including monitoring and management of overall delivery risks, and develops and updates project appraisal methodologies and reviews of pre-investment studies.

With the introduction of strengthened mechanisms for the management of public investments and capital projects, as well as improved monitoring of implementation, project prioritization is expected to be based on the highest social and economic value and to ensure timely execution. This directly enhances the efficiency of public spending, as budgetary resources are directed toward well-justified and sustainable infrastructure projects with clearly defined outcomes. Consequently, the average capital investment execution rate, which averaged 73.2% over the period 2017–2024, is expected to increase to 89.4% over the period 2026–2028.

Both reforms are expected to contribute to more effective use of public funds and to improved quality of capital investments. This will have a positive impact on economic growth through higher value added of public spending and increased execution of capital investments.

Reform 2.1.3.1 Deployment of renewable energy: Implementation of the Renewable Energy Directive (permitting, guarantees of origin,) and transparent and competitive procedures for the deployment of renewable energy

This reform aims to accelerate the deployment of renewable energy sources in North Macedonia through the full implementation of the RED II Directive. Renewable energy plays a key role in achieving the country's climate and energy goals, contributing to environmental protection, reducing fossil fuel consumption, increased economic growth, accelerated technological development, and the creation of new jobs. According to the National Energy and Climate Plan of the Republic of North Macedonia, the goal is for the installed capacity of rooftop photovoltaic systems to reach 250 MW by 2030. In support of this goal, the adoption of a Law on Renewable Energy Sources is in the process. The harmonization of the legal and regulatory framework will contribute to reducing administrative barriers that hinder investment in renewable energy sources.

The aim of this measure is to achieve at least 0.8 GW of new renewable energy capacities (primarily solar and wind) by June 2027, installed in accordance with the NECP. Achieving this goal will have a significant impact on economic activity in the country. In order to quantify such an impact, it is necessary to initially estimate the investments needed to achieve the set targets. In doing so, it is assumed that investments will be made in 0.8 GW of renewable energy, half of which will be solar energy, 40% will be wind energy, while 10% will be hydropower. The investment costs per kW for the listed types of renewable energy are estimated based on reports by the International Renewable Energy Agency (IRENA)[20], and they amount to $691 per kW for solar energy, $2,852 per kW for wind energy, and $2,267 per kW for hydropower. Based on these assumptions, the total amount of investments amounts to about EUR 1,179 million, of which the largest part is in wind energy (EUR 785 million).

However, the baseline scenario already includes an assumption for the realization of the majority of these investments, i.e. about two thirds of them. The impact of the remaining part of almost EUR 400 million is equally distributed in the analysed period, which would result in a total positive effect of around 1.3% of GDP. Moreover, the strong positive effect on GDP would be a result of the real growth of gross investments, which in this three-year period would be on average by 0.7 pp. higher compared to the baseline scenario. On the other hand, the implementation of the measure would also cause negative effects through higher import growth rates, by about 0.2 pp. compared to the baseline projection. The growth of imports would also cause a slight deterioration in the current account balance. However, the implementation of the measure would have a positive impact on the labour market, with expected higher net wage growth rates by 0.2 pp. compared to the baseline scenario, as well as a slight decrease in the unemployment rate.

Reform 2.2.2.3 Widen the offer of public e-services offered through the governmental e-platform and simplify administrative and electronic procedures

This reform is expected to increase the number of e-services offered by 50% by 2027, primarily in the fiscal and healthcare sectors. This will contribute to improving the quality, efficiency, and transparency of public services. The reform is part of broader digitalization efforts, aimed at modernizing public administration and improving

[20] Извор: IRENA Renewable power generation costs in 2023

access to services, given that e-services reduce the time and costs for citizens and companies. In addition, this reform will also contribute to improving the exchange of data between institutions and providing ex officio documents for all services that are available online.

The economic impact of this measure is reflected in the time that citizens and companies will save as a result of additional e-services. The initial value of the number of services offered in 2024 is 264 e-services. The target value for 2027 is an increase of 50%, i.e. reaching 396 e-services. Given that additional e-services have already been added compared to 2024, the number of e-services offered according to the latest available data is 312 e-services. As a result, another 84 e-services are expected to be added by 2027. In addition, the number of active e-service users in 2024 was 34,686 users, who submitted a total of 41,377 requests for e-services. The number of requests per e-service is on average 133 requests. Assuming that the same average number of requests will apply to the new 84 services that will be added by 2027, this means a total of 11,140 additional requests for e-services. Assuming that users will save an average of 2 hours per e-service, the total saving in hours is 22,280 hours. In this way, the measure will directly contribute to increasing productivity.

Reforms: 3.1.1. Reinforce the education system to address the skills mismatch, increase access to and quality of VET, and improve access to work-based learning and dual education (including private sector involvement), 3.1.2. Increase participation in adult education and improve recognition of non-formal and informal learning and 2.1.2.1: Implementation of climate and energy policies and measures as foreseen in the National Energy and Climate Plan (NECP)

These three reforms have a common goal, which is to better match the skills of the workforce with the needs of the labour market, which would improve employability, productivity, and competitiveness. The reforms target both students and adults, with the aim of providing them with relevant and practical skills. Reform 3.1.1 envisages that most primary and secondary schools will have a career counsellor by the end of the analysed period, an increase in the number of private companies involved in dual education, an increased number of students who will have the opportunity to acquire practical knowledge and skills, as well as new regional VET centres. Reform 3.1.2 enables adults to improve their skills and acquire new qualifications. This will reduce the skills gap in the workforce. In addition, reform 2.1.2.1 concerns the implementation of the transition from coal, whereby in the coal regions of Bitola and Oslomej/Kicevo sustainable employment opportunities and long-term economic stability should be created for workers from TPP Bitola and TPP Oslomej, who should be retrained and reemployed. Better matching of the skills of the workforce with the needs of the labour market will also have a positive impact on economic activity and GDP, as a result of the expected increase in employment. The achievement of the envisaged targets will result in a gradual increase in the number of employees in the coming period, whereby in the short term the number of employees would be higher by 2,000 people compared to the baseline scenario that does not include the reform, while in the medium term the number of employees would be higher by 9,000 people. The increased number of employees in this scenario would increase primarily private consumption, thus increasing the average GDP growth rate by about 0.1 pp in the analysed period.

Reform 4.1.1 Address the informal economy in support of the recently adopted Strategy for Formalization of the Informal Economy

The aim of Reform 4.1.1 is to significantly reduce the size of the informal economy in North Macedonia by strengthening inspection oversight, simplifying administrative procedures, and strengthening worker protection. Given the numerous challenges, primarily undeclared work and unregistered companies, the reform seeks to create a fairer and more transparent economic environment that will encourage formalization of employment and economic activity. Some of the steps that will be taken are an increased number of inspections and the introduction of risk-based inspections, with a particular focus on high-risk sectors; a new legal framework and simplified procedures for seasonal and temporary work, as well as the introduction of a guarantee mechanism for the payment of unpaid wages in the event of employer insolvency.

The economic impact of the reform is reflected in the increased budget revenues, i.e. increased taxes and contributions that will be realized through the formalization of informal jobs. These additional revenues can be used for capital investments or other budgetary needs. The reform targets a gradual reduction in the number of informally employed persons, with the goal of reducing it by 40% by 2027 compared to the initial scenario. The implementation of the reform would result in a gradual increase in the number of formally employed persons, which in 2027 would reach around 35,000 new formally employed persons. Moreover, with a conservative assumption that all formally newly employed persons would receive the minimum wage, only revenues based on personal income tax in 2027 would be higher by 11 million euros, while total budget revenues related to these employments by 2027 would reach over 80 million euros. If part of these funds were used for capital investments, their growth rate in the period until 2027 would be up to 3.4 pp. higher compared to the baseline scenario. Moreover, higher capital investments would result in a higher GDP growth rate on average by 0.1 pp. per year.

Reform 4.1.4. Support development of the innovation eco system through the implementation of the Smart Specialisation Strategy

Reform 4.1.4 aims to strengthen the innovation ecosystem of North Macedonia, through the implementation of the Smart Specialization Strategy, which provides the strategic framework for research, development, and innovation. The reform encourages green and sustainable growth by integrating knowledge, technology, and innovation, in order to create products and services with higher added value. The strategy focuses on several priority domains, namely: smart agriculture and food, information and communication technologies, electro-mechanical industry, sustainable materials and smart buildings, energy for the future, and tourism. The ultimate goal is to promote scientific activity, improve competitiveness, digitalization, and promote human capital. A key component of this reform is the introduction of a matching system between small and medium-sized enterprises and ESI/EIT funding in the priority areas of the Strategy. Another important component is the establishment of two innovation-oriented centres, which will improve the research and innovation infrastructure and support cooperation between companies and universities.

Research and development activities have a strong impact on economic growth and competitiveness. In addition, according to this reform, we assume 20 projects through the SME matching system and ESI/EIT funding, as well as 50 projects through the services of the innovation centres. The average duration of the projects will be 2 years. Based on data from the State Statistical Office on the number of implemented research projects and their generated income, the average value of a project is around 2.7 million denars per year in 2024. In addition, in the coming years, the value of an average project is assumed to grow by around 10% per year, which is the average growth rate in the past few years. According to these assumptions, the growth rate of investments in research and development would be around 0.1 pp. higher than the baseline scenario. Moreover, studies[21] indicate that an increase in investments in research and development by 1 pp. increases real GDP growth by between 1.11 and 2.27 pp. Thus, the total effect of this reform on GDP in the analysed period would be an increased growth in the GDP growth rate of between 0.1 pp. and 0.2 pp. compared to the baseline scenario.

[21] Sokolov-Mladenović, Cvetanović, Mladenović (2016): R&D expenditure and economic growth: EU28 evidence for the period 2002–2012. Economic Research-Ekonomska Istraživanja.

Reform 4.1.6 Expand the use of E-Customs services for economic operators and reduce the costs and increase the efficiency of customs procedures

This reform aims to expand the use of E-Customs services for economic operators, simplifying and digitizing customs procedures, reducing costs, and improving transparency. In addition, the measure will align with the Union Customs Law. The new systems will support increased data exchange, new security standards, automation of declarations, and integration with EU platforms. All of this will contribute to facilitating cross-border trade and reducing processing times for exports, imports, and transit.

The expected effects of the reform include a reduction in customs clearance time by between 2% and 4%, an increase in the number of simplified export declarations compared to regular customs declarations compared to the previous three years by 10%, and an increase in the number of approvals for authorized exporters compared to the previous three years by 10%.

Moreover, studies[22] indicate that a reduction in export time by 10% increases exports by around 4%. Accordingly, the expected reduction in customs clearance time by between 2% and 4% would have a positive effect on exports of between 0.8% and 1.6%. Such growth would increase GDP growth rates in the analysed period by between 0.4 and 0.7 pp. on average per year. At the same time, imports would also increase, but the effects of export growth exceed the effects of import growth. As a result, the current account deficit would be lower on average by between 1.0 and 2.0 pp. of GDP. The effects would also be positive on the labor market, with the unemployment rate being lower by 0.1 pp to 0.2 pp in each year of the analyzed period, while wage growth would be between 0.3 pp and 0.5 pp higher compared to the baseline scenario.

A group of reforms aimed at combating corruption: 5.2.2 Adopt and implement a new Action plan for the prevention of corruption in the judiciary for 2026-2029; 5.5.1 Additional resources allocated to the Office of the Basic Public Prosecutor for Organised Crime and Corruption, notably specialised prosecutors, financial experts, and digital forensic analysts.; and 5.5.2 Increase the number of investigations, prosecutions, final judgements, seizure, and final confiscations in corruption, including high-level cases.

The reform agenda contains several measures with one common goal - reducing corruption. One of the measures is the adoption and implementation of a new Action Plan for the Prevention of Corruption in the Judiciary 2026-2029, which aims to establish an efficient system of measures and activities that will enable the prevention and fight against corruption, as well as the reduction of risk factors for the occurrence of corruption. In addition, the measure is expected to reduce the average time required to resolve complaints against court officials. Another measure expected to have an impact on reducing corruption is the full and adequate staffing of the Basic Public Prosecutor's Office for the prosecution of organized crime and corruption, including specialized prosecutors, financial experts and digital forensics. The adoption of a Criminal Code in accordance with EU law and European standards; the adoption of a new Criminal Procedure Law in line with EU law and international practice; as well as the increase in the number of investigations, confirmed indictments and convictions in corruption cases, including at high levels; will all contribute to reducing the corruption.

Although measuring corruption is extremely difficult, there are several international institutions that quantify the level of corruption in an economy. In order to measure the level of corruption and the economic impact of reducing it, the Corruption Perception Index, prepared by Transparency International, was used for the purposes of this calculation. This Index uses data from multiple sources to provide a comprehensive indicator of corruption

[22] Norbert Wilson (2002): Examining the Effect of Certain Customs and Administrative Procedures on Trade. - Chapter 2 in Overcoming Border Bottlenecks: The Costs and Benefits of Trade Facilitation. OECD Trade Policy Studies.

in a country. According to the latest published report for 2024, the Corruption Perception Index for North Macedonia is 40, which is slightly above the Western Balkans average. If we analyse the movement of the Index in the past period, it is noticeable that North Macedonia has improved significantly in the last 5 years, by about one index point per year. With a conservative estimate of a continuation of the positive trend with only 50% of the dynamics in the past five-year period, the Corruption Perception Index in 2027 would reach 43 index points.

In order to measure the effects of reducing corruption on economic activity, we used findings from several scientific papers. Studies[23] suggest an increase in GDP per capita of between 0.17% and 0.24% when improving the Corruption Perceptions Index by one index point, i.e. between 0.5% and 0.7% for the period 2026-2028. Additionally, based on the conclusions of the studies[24], an improvement in the Index by one point increases foreign direct investment by about 0.9%, i.e. an improvement by three index points increases foreign direct investment by a total of about 2.7%. If we incorporate this assumption for an increase in FDI into an alternative macroeconomic scenario for North Macedonia, the positive effect on GDP would be about 0.5%. At the same time, this assumption has a positive impact on the labour market by increasing wages, but a negative impact on the balance of payments by increasing imports.

Reform 5.4.1 Ensure a fully functional automated case management information systems in courts and in the Public Prosecutors' Office with no manual distribution of cases

Reforms in the area of the rule of law are crucial for ensuring a fair society, protection of rights, and professional conflict resolution. In this direction is the measure to ensure a fully functional and automated case management information system in courts and the Public Prosecutor's Office. The reform includes the introduction of a mechanism for monitoring and ensuring the effective use of automated computer systems for case management by December 2026, as well as functional automated case management in accordance with the best practices of EU member states by June 2027. In addition to improving the rule of law, reforms in this area also have an indirect economic impact. An efficient court system, which resolves processes within a reasonable time, saves both time and resources for economic entities, and at the same time increases investor confidence.

To assess the economic impact of this reform, it is first necessary to estimate how many days it would reduce the average duration of case allocation, which in 2024 was around 350 days. In addition, this indicator has had a pronounced upward trend in the past few years, as a result of the fact that the rate of resolved cases is continuously below 100%, i.e. the number of new cases is higher than the number of resolved cases. The target of the measure is to gradually achieve a case resolution rate of 100% by 2027. Achieving this target would contribute to reducing the average duration of case allocation by 8.5%, 16.7%, and 25.6% in the next three years, respectively, compared to a scenario in which this indicator would remain at the same level as before.

Moreover, based on studies[25], it is estimated that a 1% reduction in case disposition time results in an increase in total factor productivity by 0.03%. Accordingly, the expected impact of the measure on total factor productivity in the case of North Macedonia in the next three years would be 0.26%, 0.50%, and 0.77%, respectively. The increase in total factor productivity would also have a positive impact on economic activity, with GDP growth rates being 0.1 pp higher during the gradual improvement in the case resolution rate, and 0.2 pp higher when this rate reaches 100%. The higher GDP would be driven by slightly higher investments, while on the other hand imports would also grow, which would have a negative impact on the balance of payments. The effects on the labour market would be positive, with slight growth in employment and net wage growth rates.

[23] Podobnik Boris et al (2018): "Influence of corruption on economic growth rate and foreign investments." The European Physical Journal.

[24] Wei, S.-J. (2000). How Taxing is Corruption on International Investors? *The Review of Economics and Statistics*, *82*(1), 1–11.

[25] Italy's MoF Working Paper 2 (March 2023). Structural reforms in the Italian National Recovery and Resilience Plan: A macroeconomic assessment

In summary, the reforms from the Reform Agenda, in addition to numerous other benefits, would have a significant impact on the economic activity. Assuming the implementation of all the listed reforms, average GDP growth rates in the coming medium-term period would be between 2.6 pp. and 3.3 pp. higher compared to the baseline scenario.

In terms of the expected fiscal impact of the Reform Agenda, according to the Growth Plan, an allocation of EUR 750,354,553.00 is foreseen for North Macedonia, of which EUR 215,342,394.00 in the form of non-repayable support and EUR 535,012,553.00 in the form of a loan. Of the total amount, EUR 349,095,433.75 is a loan for direct budget support, while the remaining EUR 401,259,119.25 (loan and non-repayable support) is intended for financing infrastructure projects through the WBIF (Western Balkan Investment Fund).

Appendix 2 of Annex 1 to the Commission Implementing Decision contains the amounts of funds indicatively allocated, as well as the planned instalments and the division by instalments between the support in the form of a loan and the non-repayable support:

Expected payment	**Value**	**Loans - Treasury**	**Loans - WBIF**	**Grants - WBIF**
December 2024	17,126,494.79	7,967,941.43	4,243,463.06	4,915,090.31
June 2025	70,646,791.01	32,867,758.38	17,504,285.12	20,274,747.51
December 2025	134,871,146.47	62,747,538.73	33,417,271.59	38,706,336.15
June 2026	133,800,740.55	62,249,542.39	33,152,055.14	38,399,143.01
December 2026	96,336,533.20	44,819,670.52	23,869,479.70	27,647,382.97
June 2027	93,125,315.42	43,325,681.51	23,073,830.38	26,725,803.53
December 2027	204,447,531.56	95,117,300.78	50,656,340.26	58,673,890.52
Total	**750,354,553.00**	**349,095,433.75**	**185,916,725.25**	**215,342,394.00**
Of which pre-financing (up to 7%)	52,524,818.71	24,436,680.36	13,024,170.77	15,073,967.58

6. Institutional issues and stakeholder involvement

The Economic Reform Programme 2026-2028 was prepared by the inter-ministerial working group for the preparation of the ERP, which includes nominated ERP coordinators from relevant ministries and institutions. The whole process is coordinated by the Ministry of Finance - as the National coordinator. In the process of preparing the Programme, the following institutions were involved: National Bank, Ministry of finance, Ministry of Energy, Mining and Mineral Resources, Ministry of Education and Science, Ministry of Digital Transformation, Customs Administration, Ministry of Economy and Labour, Ministry of Justice, Ministry of Social Policy, Demography and Youth, Public Procurement Bureau and Public Revenue Office.

In the process of preparation of the programme, face-to-face and online working meetings, trainings and consultations were oganised with the institutions. Also, electronic communication was used with the aim of the preparation of the ERP moving within the established time dynamics for its delivery to the EC.

On May 13, 2025, the Economic and Financial Dialogue on ministerial level with the EU was held, at which the Joint conclusions with policy guidance were adopted, which were the basis for creating the new ERP 2026-2028.

On July 18, 2025, the EC delivered the Guidance for the preparation of the ERP 2026-2028, officially starting a new cycle of the preparation of the ERP. The ERP contains macroeconomic projections, a budget plan for the next three years and a section on the economic impact of chosen measures from the Reform Agenda, as well as an overview of the actions taken in response to the recommendations of the Joint Conclusions.

In May and October 2025, workshops were held organized by CEF Ljubljana under the EU Regional Project "Better Integrated Structural Reforms in Fiscal Frameworks" (component Measuring the Impact of Structural Reform Measures), aimed at building the capacities of the Ministry of Finance and the line ministries involved in the ERP process to assess the economic impact of their measures from the Reform Agenda. At the same time, given that the ERP is a complex and important strategic document for the country, a total of 19 trainings were conducted at the Ministry of Finance throughout 2025 (both in person and online) within the Swiss State Secretariat for Economic Affairs (SECO) Macroeconomic Planning and Management Project (MPMP), which is based on the IMF Financial Programming and Policies (FPP) tool, and within the World Bank's EU TF Regional Project on Strengthening Fiscal Governance in the Western Balkans. The technical assistance provided through these project activities was aimed at building the Ministry of Finance's capacities for preparing the medium-term macroeconomic scenario and projections, alternative scenarios and sensitivity analysis, public finance sustainability, and assessing the economic impact of selected reforms from the Reform Agenda.

The Government adopted the Programme at a session held on January 13, 2026.

7. ANNEXES

Annex 1: Summary data

Table 1a. Macroeconomic prospects

	ESA Code	2024	2024	2025	2026	2027	2028
		bn EUR	Rate of change				
1. Real GDP at market prices	B1g	15.118	3.0	3.5	3.8	4.0	4.2
2. GDP atmarket prices	B1g	15.668	6.8	7.8	6.6	6.4	6.7
Components of real GDP							
3. Private consumption expenditure	P3	10	2.1	2.8	2.6	2.8	2.8
4. Government consumption expenditure	P3	2	0.4	0.0	1.4	1.2	1.0
5. Gross fixed capital formation[26]	P51	5	10.4	9.6	8.4	7.2	6.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	:	:	:	:	:	:
7. Exports of goods and services	P6	9	-4.0	4.4	4.7	5.1	5.6
8. Imports of goods and services	P7	12	-1.4	5.3	4.9	4.7	4.6
Contribution to real GDP growth							
9. Final domestic demand		17.3	4.6	4.8	4.6	4.4	4.2
10. Change in inventories and net acquisition of valuables	P52+P53	:	:	:	:	:	:
11. External balance of goods/services	B11	-2	-1.6	-1.3	-0.7	-0.4	0.0

Source: SSO and calculations of the Ministry of finance

Table 1b. Price developments

		2024	2025	2026	2027	2028
1. GDP deflator	%	3.6	4.2	2.7	2.3	2.4
2. Private consumption deflator	%	2.1	3.7	2.5	2.2	2.0
3. HICP	%	3.6	4.2	2.7	2.3	2.4
4. National CPI	%	3.5	3.9	2.5	2.0	:
5. Public consumption deflator	%	10.7	8.0	3.3	3.0	4.0
6. Investment deflator	%	-0.1	1.4	1.9	2.1	2.1
7. Export price deflator (goods & services)	%	1.7	0.2	1.2	1.8	2.1
8. Import price deflator (goods & services)	%	0.5	0.1	1.1	1.8	2.0

Source: MoF Calculations and NBRNM

Table 1c. Labour market developments

	ESA code	2024 Level	2024	2025	2026	2027	2028
			Rate of change				
1. Population (thousands)			1,824.4	1,821.0	1,817.1	1,813.0	1,809.7
2. Population (growth rate in %)			-0.2	-0.2	-0.2	-0.2	-0.2
3. Working-age population (persons.			1,515.31	1,515.23	1,515.17	1,515.1	1,515.04
4. Participation rate			52.3	52.5	52.7	53.1	53.6

[26] Data refers to gross capital formation
[27] Age group of 15-64 years

5. Employment [28](persons. thousands)			695	706	717	730	743
6. Employment[29]. hours worked			:	:	:	:	:
7. Employment (growth rate in %)			0.9	1.6	1.6	1.7	1.8
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate[30]			12.4	11.2	10.1	9.2	8.5
11. Labour productivity[31]. persons		1339.5	2.1	1.9	2.1	2.2	2.3
12. Labour productivity[32]. hours worked			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Source: SSO and MoF calculations

Table 1d. Sectoral balance

% of GDP	ESA	2024	2025	2026	2027	2028
1. Net lending/borrowing vis-à-vis the rest of the world	B9	2.0	-3.2	0.4	0.6	2.3
of which:						
- Balance of goods and services		-13.2	-13.9	-13.7	-12.8	-11.5
- Balance of primary incomes and transfers		11.0	9.7	9.6	9.1	8.9
- Capital account		3.6	0.9	4.6	4.3	4.8
2. Net lending/borrowing of the private sector	B9/EDP B9	2.3	-0.3	-0.6	-0.7	0.4
3. Net lending/borrowing of general government		-4.5	-3.9	-3.5	-3.0	-3.0
4. Statistical discrepancy		0.6	0.1	0.0	0.0	0.0

Source: NBRNM and MoF

Table 1e. GDP. investment and gross value added

	ESA	2024	2025	2026	2027	2028
GDP and investment						
GDP *level* at *current* market prices (in bn Denars)	B1g	964.1	1,039.7	1,108.4	1,179.4	1,258.3
Investment ratio (% of GDP)		30.6	31.5	32.7	33.6	34.3

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion, unless otherwise noted	2024	2025	2026	2027	2028
1. Current account balance(% of GDP)	-2.2	-4.2	-4.1	-3.7	-2.6
2. Export of goods	6.7	6.9	7.3	7.6	7.9
3. Import of goods	9.8	10.2	10.7	11.1	11.4
4. Trade balance	-3.1	-3.3	-3.4	-3.5	-3.5
5. Export of services	2.9	3.0	3.2	3.4	3.6
6. Import of services	1.9	2.1	2.2	2.3	2.4
7. Service balance	1.0	0.9	1.0	1.1	1.2
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	-0.8	-0.8	-0.8	-0.9	-1.0
10. Current transfers	2.5	2.4	2.5	2.6	2.7
11. Of which from EU	:	:	:	:	:
12. Current account balance	-0.4	-0.8	-0.7	-0.7	-0.6

[28] Occupied population, domestic concept national accounts definition
[29] National accounts definition
[30] Harmonised definition, Eurostat
[31] Real GDP per person employed
[32] Real GDP per hour worked

13. Capital and financial account balance	:	:	:	:	:
14. Foreign direct investment. net	1.0	0.5	0.7	0.8	0.8
15. Foreign reserves	5.0	:	:	:	:
16. Foreign debt	12.0	:	:	:	:
16a. Of which: public	5.6	:	:	:	:
16b. O/w: foreign currency denominated	:	:	:	:	:
16c.O/w: repayments due	:	:	:	:	:
17. Exchange rate vis-à-vis EUR (end-year)	:	:	:	:	:
18. Exchange rate vis-à-vis EUR (annual average)	61.5	:	:	:	:

Source: National Bank of the Republic of North Macedonia

Table 1g. Sustainability indicators

		2021	2022	2023	2024	2025
1. Current Account Balance	% of GDP	-2.8	-6.1	0.3	-2.2	-4.2
2. Net International Investment Position	% of GDP	-61.2	-61.4	-57.0	-55.3	
3. Export market share	% growth	3.1	-3.0	6.3	-5.9	
4. Real Effective Exchange Rate	% growth	1.1	2.3	4.9	0.5	
5. Nominal Unit Labour Costs	% growth	n.a.	n.a.	n.a.	n.a.	
6. Private sector credit flow	% of GDP	4.1	4.4	2.4	5.2	
7. Private sector debt	% of GDP	88.0	88.2	84.1	89.5	
8. General Government Debt	% of GDP	51.4	49.6	49.4	52.9	52.1

Source: National Bank of the Republic of North Macedonia and Ministry of Finance

Table 2a. General government budgetary prospects

	ESA	2024	2024	2025	2026	2027	2028
		bn denars	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-43.74	-4.5	-3.9	-3.5	-3.0	-3.0
2. Central government	S1311	-43.80	-4.5	-3.7	-3.4	-2.9	-2.9
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-1.84	-0.2	:	:	:	:
5. Social security funds	S1314	1.90	0.2	-0.3	-0.1	-0.1	-0.1
General government (S13)							
6. Total revenue	TR	321.70	33.4	36.9	35.7	36.0	35.9
7. Total expenditure[33]	TE	365.44	37.9	40.8	39.3	39.1	38.9
8. Net borrowing/lending	EDP.B9	-43.74	-4.5	-3.9	-3.5	-3.0	-3.0
9. Interest expenditure	EDP.D41	17.91	1.9	2.0	1.9	2.0	2.0
10. Primary balance[34]		-25.83	-2.7	-1.9	-1.6	-1.0	-1.0
11. One-off and other temporary measures[35]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 12a+12b+12c)		191.14	19.8	20.8	20.6	20.7	20.8
12a. Taxes on production and imports	D2	133.22	13.8	14.5	14.1	14.2	14.3
12b. Current taxes on income and wealth	D5	53.31	5.5	5.8	6.0	6.1	6.1

[33] Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9
[34] The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9)
[35]A plus sign means deficit-reducing one-off measures

12c. Capital taxes	D91	4.61	0.5	0.5	0.4	0.4	0.4
13. Social contributions	D61	105.67	11.0	11.3	11.0	11.1	11.1
14. Property income	D4	3.46	0.4	0.8	0.8	0.8	0.7
15. Other (15 = 16-(12+13+14))[36]		21.44	2.2	4.0	3.4	3.5	3.3
16 = 6. Total revenue	TR	321.70	33.4	36.9	35.7	36.0	35.9
p.m.: Tax burden (D2+D5+D61+D91-D995)[37]		296.81	30.8	32.0	31.6	31.8	31.8
Selected components of expenditures							
17. Collective consumption	P32	103.72	10.8	11.6	11.4	10.8	10.5
18. Total social transfers	D62 + D63	170.10	17.6	18.6	18.6	18.1	17.5
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	170.10	17.6	18.6	18.6	18.1	17.5
19 = 9. Interest expenditure	EDP.D41	17.91	1.9	2.0	1.9	2.0	2.0
20. Subsidies	D3	36.95	3.8	3.5	3.1	3.3	3.2
21. Gross fixed capital formation	P51	36.76	3.8	5.1	4.3	4.8	5.8
22. Other (22 = 23-(17+18+19+20+21)[38]		:	:	:	:	:	:
23.=7. Total expenditures	TE[39]	365.44	37.9	40.8	39.3	39.1	38.9
p.m. compensation of public sectoremployees	D1	71.21	7.4	7.7	7.7	7.4	7.2

Source: Ministry of Finance

Table 2b. General government budgetary prospects

	ESA	2024	2025	2026	2027	2028
		bn denars				
Net lending (B9) by sub-sectors						
1. General government	S13	-43.74	-40.86	-39.24	-35.76	-38.07
2. Central government	S1311	-43.80	-38.67	-37.92	-34.49	-36.88
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-1.84	:	:	:	:
5. Social security funds	S1314	1.90	-2.68	-1.32	-1.27	-1.18
General government (S13)						
6. Total revenue	TR	321.70	383.35	396.00	425.05	451.47
7. Total expenditure[40]	TE	365.44	424.21	435.24	460.81	489.54
8. Net borrowing/lending	EDP.B9	-43.74	-40.86	-39.24	-35.76	-38.07
9. Interest expenditure	EDP.D41	17.91	20.73	21.39	23.94	25.30
10. Primary balance[41]		-25.83	-20.13	-17.85	-11.82	-12.76
11. One-off and other temporary measures[42]		:	:	:	:	:
Components of revenues						
12. Total taxes (11 = 11a+11b+11c)		191.14	216.11	228.22	244.33	261.31
12a. Taxes on production and imports	D2	133.22	150.95	156.65	167.88	179.45
12b. Current taxes on income and wealth	D5	53.31	60.17	66.77	71.55	76.86
12c. Capital taxes	D91	4.61	4.99	4.80	4.90	5.00

36 P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)
37 Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate
38 D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8
39 Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9
40 Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9
41 The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9)
42 A plus sign means deficit-reducing one-off measures

13. Social contributions	D61	105.67	117.10	121.82	130.34	139.45
14. Property income	D4	3.46	8.44	8.52	9.01	9.26
15. Other (15 = 16-(12+13+14))[43]		21.44	41.70	37.45	41.38	41.46
16 = 6. Total revenue	TR	321.70	383.35	396.00	425.05	451.47
p.m.: Tax burden (D2+D5+D61+D91-D995)[44]		296.81	333.20	350.04	374.66	400.75
Selected components of expenditures						
17. Collective consumption	P32	103.72	120.71	125.85	127.73	131.56
18. Total social transfers	D62+D63	170.10	193.40	206.36	213.67	219.94
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	170.10	193.40	206.36	213.67	219.94
19 = 9. Interest expenditure	EDP.D41	17.91	20.73	21.39	23.94	25.30
20. Subsidies	D3	36.95	36.51	34.43	38.68	39.91
21. Gross fixed capital formation	P51	36.76	52.87	47.22	56.79	72.82
22. Other (22 = 23-(17+18+19+20+21)[45]		:	:	:	:	:
23.=7. Total expenditures	TE[46]	365.44	424.21	435.24	460.81	489.54
p.m. compensation of public sectoremployees	D1	71.21	80.07	85.01	87.46	90.23

Source: Ministry of Financeж

Table 3. General government expenditure by function

Percentage of GDP	COFOG	2024	2025	2026	2027	2028
1. General public services	1	3.2	3.7	3.3	:	:
2. Defence	2	1.6	1.8	1.8	:	:
3. Public order and safety	3	2.3	2.3	2.2	:	:
4. Economic affairs	4	4.9	5.7	4.9	:	:
5. Environmental protection	5	0.4	0.5	0.5	:	:
6. Housing and community amenities	6	1.8	1.7	1.7	:	:
7. Health	7	5.6	5.6	5.3	:	:
8. Recreation. culture and religion	8	0.6	0.7	0.7	:	:
9. Education	9	4.2	4.5	4.3	:	:
10. Social protection	10	13.4	14.3	14.5	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	37.9	40.8	39.3	39.1	38.9

Source: Ministry of Finance

Table 4. General government debt developments

Percentage of GDP	ESA	2024	2024	2026	2027	2028
1. Gross debt[47]		52.9	52.1	53.3	54.1	53.5
2. Change in gross debt ratio		3.5	-0.8	1.2	0.8	-0.6
Contributions to change in gross debt						
3. Primary balance[48]		2.7	1.9	1.6	1.0	1.0

43 P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)
44 Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate
45 D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8
46 Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9
47 As defined in Regulation 3605/93 (not an ESA concept)
48Cf item 10 in Table 2a

4. Interest expenditure[49]	EDPD.41	1.9	2.0	1.9	2.0	2.0
5. Real growth effect		-1.4	-1.7	-1.9	-2.0	-2.1
6. Inflation effect		-0.5	-0.5	-0.5	-0.5	-0.5
7. Stock-flow adjustment		0.0	0.0	0.0	0.0	0.0
of which:						
- Differences between cash and accruals[50]		:	:	:	:	:
- Net accumulation of financial assets[51]		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other[52]		:	:	:	:	:
p.m. implicit interest rate on debt [53]		4.0	4.1	3.9	4.1	4.0
Other relevant variables						
8. Liquid financial assets[54]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Source: Ministry of Finance

Table 5. Cyclical developments

Percentage of GDP	ESA	2024	2025	2026	2027	2028
1. Real GDP growth (%)	B1g	3.0	3.5	3.8	4.0	4.2
2. Net lending of general government *	EDP.B.9	-4.5	-3.9	-3.5	-3.0	-3.0
3. Interest expenditure	EDP.D.41	1.9	2.0	1.9	2.0	2.0
4. One-off and other temporary measures[55]		:	:	:	:	:
5. Potential GDP growth (%)[56]		2.9	3.6	3.7	3.8	4.0
Contributions (percentage points):						
- labour		0.8	1.5	1.2	1.0	0.8
- capital		1.2	1.1	1.4	1.6	1.8
- total factor productivity		1.0	1.0	1.1	1.2	1.3
6. Output gap		-0.8	-0.8	-0.8	-0.6	-0.4
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
9. Cyclically-adjusted primary balance (8-3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

* Data pertains to central government budget
Source: Ministry of Finance

[49] Cf item 9 in Table 2a
[50] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant
[51] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant
[52] Changes due to exchange rage movement, and operation in secondary market could be distinguished when relevant.
[53] Proxied by interest expenditure divided by the debt level of the previous year
[54] AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).
[55] A plus sign means deficit-reducing one-off measures
[56] Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

Table 6. Divergence from previous programme

	2024	2025	2026	2027	2028
1. GDP growth					
Previous programme	2.1	3.7	4.0	4.4	:
Latest programme	3.0	3.5	3.8	4.0	4.2
Difference (p.p.)	1.0	-0.2	-0.2	-0.5	:
2. General government net lending (% of GDP)					
Previous programme	-4.7	-4.0	-3.5	-3.0	:
Latest programme	-4.5	-3.9	-3.5	-3.0	-3.0
Difference (p.p.)	0.1	0.1	0.0	-0.1	:
3. General government gross debt (% of GDP)					
Previous programme	53.5	53.4	53.6	53.5	:
Latest programme	52.9	52.1	53.3	54.1	53.5
Difference (p.p.)	-0.5	-1.4	-0.3	0.6	:

Source: Calculations of the Ministry of Financeж

Table 7. Long-term sustainability of public finances

Percentage of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	34.786	38.088	40.363	39.361	39.371	38.912
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	8.6015	10.283	12.21	11.445	11.614	11.295
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability. survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	4.5	6.1385	7.0404	6.6572	6.8028	6.6626
- Long-term care *(this was earlier included in the*	:	:	:	:	:	:	:
Education expenditure	:	4	3.8522	4.3	4.5	4.7	5
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	0.7258	1.1999	2.3587	2.305	1.8	1.5
Total revenues	:	32.385	29.928	36.738	36.738	36.738	36.738
of which: property income	:	:	:	:	:	:	:
of which: trade-related revenue	:	5.977	6.7302	7.5903	6.6586	5.8404	5.1234
of which: royalties. concessions etc.	:	:	:	:	:	:	:
of which: from pensions contributions (or social	:	:	:	:	:	:	:
Pension reserve fund assets	:	34.786	38.088	40.363	39.361	39.371	38.912
of which: consolidated public pension fund assets	:	:	:	:	:	:	:
Assumptions*							
Labour productivity growth	2.9	2.2	-4.174	2.5955	4.5086	4.7433	4.5237
Real GDP growth	6.5	3.4	-4.688	3.8524	4.4419	3.7385	3.4885
Participation rate males (aged 20-64)[57]	:	:	:	83.674	83.395	78.876	74.356
Participation rate females (aged 20-64)	:	:	:	58.35	63.1	67.85	72.6

[57] Labour market calculation refer to the age group of 15-64 years old.

Total participation rate (20-64)	:	:	:	71.267	73.5	73.5	73.5
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	11.6	12.5	16.712	20.557	23.8	27.309	30.236

* Labour market data refer to the age group 15-64
Source: Calculations of the Ministry of Finance

Table 7a. Contingent liabilities

Measures		Maximum amount of contingent liabilities[58] (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	Subtotal		
Others	Subtotal		
Total			

Source: Ministry of Finance

Table 8. Basic assumptions on the external economic environment underlying the programme framework

		2024	2025	2026	2027	2028
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange	Annual average	1.08	1.13	1.16	1.16	:
Nominal effective exchange rate	Annual average	2.95	4.59	2.28	0	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth. excluding EU	Annual average	3.7	3.4	3.4	3.5	:
EU GDP growth	Annual average	0.9	1.4	1.4	1.5	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes. excluding EU (y-o-y)	Annual average	4.3	3	2	3	:
Oil prices (Brent. USD/barrel)	Annual average	80.5	68.9	62.4	63.3	:

Source: European Commission. Economic Forecast Autumn 2025

Table 9a: Social scoreboard indicators

	Data source	2020	2021	2022	2023	2024
Equal opportunities						
1. Adults participating in learning in the last 4 weeks. age 25-64	Eurostat	2.6%	2.2% (b)	2.7%	2.5%	2.8%
2. Share of early leavers from education and training. age 18-24	Eurostat	5.7%	6.1% (b)	6.2%	8.4%	8.0%
3. Share of individuals with basic overall digital skills or above. age 16-74	Eurostat	N/A	34.6%	N/A	N/A	N/A
4. Young people neither in employment nor in education or training (NEET rate). age 15-29	Eurostat	26.2%	23.6% (b)	22.8%	24.1%	22.6%
5. Gender gap in employment rate. age 20-64	Eurostat	19.9 pps.	19.2 pps. (b)	20.1 pps.	18.0 pps.	18.0 pps.
6. Income quintile share ratio - S80/S20	Eurostat	5.9	5.6 (b)	5.4	5.6	5.2
Working conditions						

[58] Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP.

7. Employment rate. age 20-64	Eurostat	59.1%	61.2% (b)	61.8%	61.7%	62.7%
8. Unemployment rate. age 15-74	Eurostat	16.4%	15.5% (b)	14.4%	13.1%	12.3%
9. Long-term unemployment rate. age 15-74	Eurostat	12.4%	13.1% (b)	12.0%	9.4%	8.0%
10. Gross disposable income of households in real terms. per capita	Eurostat	N/A	N/A	N/A	N/A	N/A
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	Eurostat	32.6%	31.0% (b)	33.0%	30.0%	N/A
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	Eurostat	39.7%	40.5% (b)	42.8%	38.1%	N/A
13. Impact of social transfers (other than pensions) on poverty reduction (% of reduction of AROP)	Eurostat	15.2%	11.9% (b)	13.6% (b)	11.2%	N/A
14. Disability employment gap. age 20-64	Eurostat	33.7 pps.	34.1 pps. (b)	31.3 pps.	29.2 pps.	N/A
15. Housing cost overburden rate (% of population)	Eurostat	8.5%	7.8% (b)	8.9%	8.5%	N/A
16. Children aged less than 3 years in formal childcare	Eurostat	6.3%	7.7% (b)	14.4%	17.5%	N/A
17. Self-reported unmet needs for medical care	Eurostat	1.7%	1.1% (b)	3.0%	2.7%	N/A

Source: SSO, Eurostat, IMF, MF, WEF, UNECE, HIF, WB, NBRNM
N/A:(not avaliable)
b:break in time series
p:provisional

Table 9b: Other selected indicators

	Data source	2020	2021	2022	2023	2024
Other social and healthcare indicators						
1.Public social protection expenditure in % of GDP	MF	2.3%	12.4%	12.1%	12.5%	13.4%
2.Public healthcare expenditure in % of GDP	MF	6.1%	6.3%	5.4%	5.3%	5.6%
3.Household out-of-pocket payments as a % of total health expenditure	WHO	38.9%	41.7%	40.2%	39.6%	N/A
4.Percentage of population not covered by health insurance (Health Insurance Fund data)	HIF	10.1%	N/A	N/A	N/A	N/A
5. Physicians per 1000 people	WHO	3.0	N/A	N/A	N/A	N/A

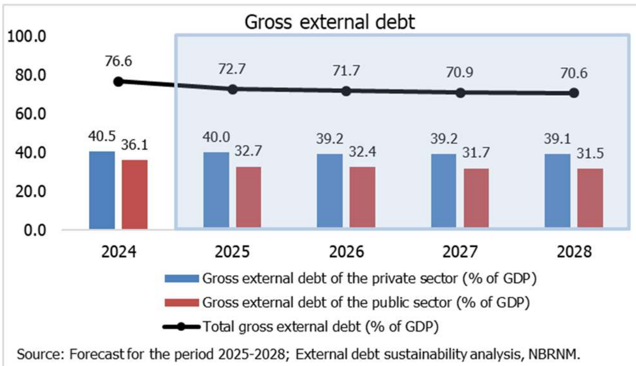
6. Nurses and midwives per 1000 people	WHO	4.8	N/A	N/A	N/A	N/A
Environment						
7.Total environmental tax revenues as a share of total revenues from taxes and social contributions	SSO	6.9%	6.9%	5.7%	4.7%	N/A
8.Greenhouse gas emissions per capita	WB	4.09 CO2-eq. [t]	4.17 CO2-eq. [t]	4.58 CO2-eq. [t]	4.79 CO2-eq. [t]	N/A
9.Generation of waste excluding major mineral wastes	Eurostat	437 kg per cap.	N/A	712 kg per cap.	N/A	N/A
Digital economy						
10.Percentage of households with broadband access (mobile and fixed)	SSO	79.9%	83.7%	86.6%	88.0%	90.8%
11.Share of total population using internet [NB: population 16-74]	SSO	81.4%	86.4%	88.3%	85.3%	91.2%
Energy						
12.Energy imports dependency (%)	SSO	63.5%	67.6%	63.0%	63.2%	65.5%
13.Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	SSO	354.7	354.4	349.8	361.7	306.1
14.Share of renewable energy sources (RES) in final energy consumption (%)	SSO	19.2%	20.7%	21.8%	31.5%	35.4%
Transport						
15.Railway Network Density (Kilometres of lines operated per 1000 sq. kms.)	UNECE	26.6	26.6	26.6	26.6	N/A
16.Motorisation rate (Passenger cars per 1000 inhabitants)	Eurostat	207	260	264	303	318
Agriculture						
17.Share of gross value added (Agriculture. Forestry and Fishing)	Eurostat	9.8%	8.3%	8.4%	7.2%	7.0%
18.Share of employment (Agriculture. Forestry and Fishing)	SSO	13.0%	11.8%	10.0%	7.8%	9.0% (p)
19.Utilised agricultural area. Main area (1000 ha)	Eurostat	1270.5	1268.8	1265.1	1258.6	1249.2
Industry (except construction)						

20.Share of gross value added	Eurostat	19.8%	19.7%	19.7%	20.6%	20.6% (p)
21.Contribution to employment (% of total employment)	SSO	23.2%	23.0%	23.8%	23.7%	24.0%
Services						
22.Share of gross value added	SSO	64.4%	65.6%	65.0%	65.3%	65.1% (p)
23.Contribution to employment (% of total employment)	SSO	57.1%	58.4%	59.5%	61.0%	60.3%
Business Environment						
24.Rank in Global Competitiveness Index (Source: World Economic Forum)	WEF	N/A	N/A	N/A	N/A	N/A
25.Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	IMF	32.7%	N/A	N/A	N/A	N/A
Research. Development and Innovation						
26.R&D intensity of GDP (R&D expenditure as % of GDP)	Eurostat	0.4%	N/A	0.4%	0.4%	N/A
27.R&D expenditure – EUR per inhabitant	Eurostat	19.5	N/A	26.9	29.5	N/A
Trade						
28.Export of goods and services (as % of GDP)	NBRNM	57.8%	65.4%	72.8%	67.4%	61.7%
29.Import of goods and services (as % of GDP)	NBRNM	70.5%	81.3%	93.4%	80.4%	74.6%
30.Trade balance (as % of GDP)	NBRNM	-12.7%	-15.8%	-20.6%	-13.0%	-13.0%

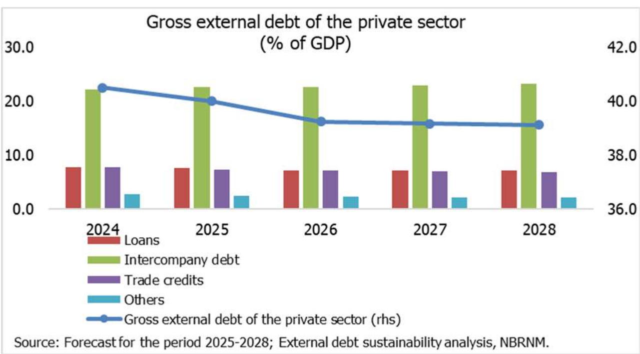
Source: SSO, Eurostat, IMF, MF, WEF, UNECE, HIF, WB, NBRNM, WHO
N/A:(not available)
b:break in time series
e:estimated
p:provisional

Annex 2: External debt sustainability analysis

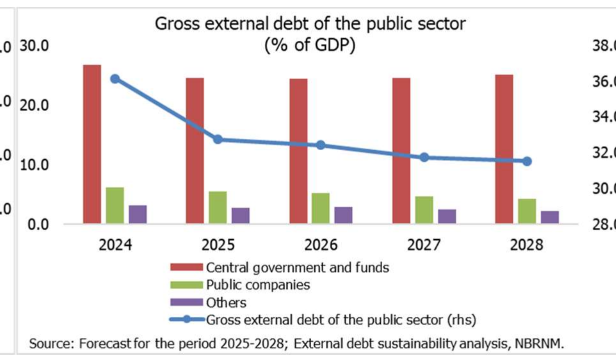
According to the external debt sustainability analysis[59], at the end of 2025 the gross external debt is expected to amount to 72.7% of GDP, i.e. it will decrease by 3.9 p.p. of GDP on an annual basis. This projected reduction of the gross external debt is mainly due to the lower debt of the public sector by 3.4 p.p. of GDP, that stems from a decline in the debt of all public sector components, but most notably due to the reduced debt of the central government. At the same time, the debt of the private sector is also expected to decline, by 0.5 p.p. of GDP compared to the end of 2024. In this context, the most pronounced reduction (in relative terms) is expected in the trade credits category, followed by currencies and deposits of the banking sector and a decline in debt from financial loans, amid increased liabilities arising from intercompany debt. Over the remaining analysed period, a continued decline in gross external debt is expected, bringing it down to 70.6% of GDP in 2028, at the end of the projection period. This downward movement in external debt stems primarily from the more pronounced reduction in public debt compared to the decrease in private sector debt. Thus, relative to the level recorded in 2024, the external debt at the end of 2028 will be lower by 6 percentage points of GDP, reflecting a reduction in public sector external debt by 4.6 percentage points of GDP, as well as an expected decline in private debt by 1.4 percentage points.



Source: Forecast for the period 2025-2028; External debt sustainability analysis, NBRNM.



Source: Forecast for the period 2025-2028; External debt sustainability analysis, NBRNM.



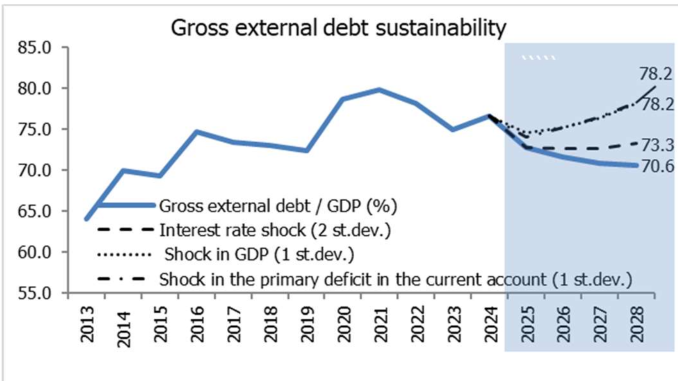
Source: Forecast for the period 2025-2028; External debt sustainability analysis, NBRNM.

The structure of public external debt in 2028, compared with the the end of 2024, indicates a decline in public enterprises' debt (by 2 p.p. of GDP), lower central government debt (by 1.7 p.p. of GDP), and a decline in debt of the central bank and public banks (by 0.4 and 0.5 p.p. of GDP, respectively). As for private external debt, the lower share in GDP in 2028 compared with the level as of 31.12.2024 mainly stems from trade credits (1 p.p. of GDP), followed by lower levels of financial loans and currencies and deposits of the banking sector, while intercompany debt is projected to record moderate growth.

Concerning the factors driving the change in the gross debt, on average, over the analyzed period (2025–2028), the primary current account deficit (the current account excluding interest payments) contributes to an increase in external debt. On the other hand, non-debt-creating financial flows and the automatic debt

[59] Source: The calculations and analysis are done by the National Bank of the Republic of North Macedonia (NBRNM), based on the IMF approach. The baseline scenario assumes an average GDP growth of 3.9% over the period 2025–2028, based on the NBRNM's medium-term projection for 2025–2028 from October 2025, including the presented balance of payments projection (October 2025), which is based on the 2025 Budget, whereas for the period 2026–2028, the Fiscal Strategy 2026–2030 from April 2025 is used, noting that balance of payments statistics do not fully correspond to external debt statistics.

dynamics (which include the effects of real GDP growth, price changes, and changes in the nominal effective interest rate) contribute toward reducing external debt, both on average and cumulatively over the entire projection period. Accordingly, it should be emphasized that, cumulatively over the overall analyzed period from 2025 to 2028, an increase in foreign exchange reserves is expected, with reserves remaining at an adequate level.



Stress tests show that the expected medium-term debt dynamic is particularly sensitive to shocks to economic activity and the primary current account, with these shocks having almost identical effects. A factor that reduces the vulnerability is the very structure of external debt, in which intercompany debt and trade credits account for a high share—on average about 30% of total external debt over the projection period—categories that are considered more flexible and less risky forms of debt.

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Annex 3: Status of Implementation of the Strategy for the Formalisation of the Informal Economy 2023–2027, with Action Plan 2023–2025

Following the adoption of the Strategy with the Action Plan 2023–2025, by a Government decision of 3th October 2023, a permanent institutional framework was established for the effective monitoring of the implementation of the Action Plan. This framework consists of an Intersectoral Body for the Coordination of Activities for the Implementation of the Strategy and a National Council for the Formalisation of the Informal Economy.

During the reporting period, the implementation of the measures and activities contained in the Action Plan of the Strategy for the Formalisation of the Informal Economy 2023–2027 proceeded at a slower pace by the institutions responsible for their implementation, primarily due to systemic changes in the organisation and functioning of state administration bodies, namely changes in institutional competences and the fluctuation of civil servants.

The Ministry of Finance (as the institution responsible for coordinating activities related to the implementation of the Strategy and the Action Plan 2023–2025) in cooperation with the competent institutions, initiated activities aimed at adopting a Revised Strategy for the Formalisation of the Informal Economy in the Republic of North Macedonia 2023–2027, with an Action Plan for the period 2026–2027.

In this context, a systematic assessment (evaluation) will be conducted of the activities from the Action Plan 2023–2025 that have not been implemented or have been partially implemented, in order to determine their appropriateness, relevance, and feasibility under the current conditions, as well as the need for their continuation, amendment, prioritisation, or replacement with new activities.

The Revised Strategy will define specific objectives and key directions (measures) for action in line with newly emerging circumstances and needs, as well as with the priorities and objectives set out in the National Development Strategy 2024–2044, the Government Programme 2024–2028, and the Reform Agenda 2024–2027. Consequently, the new Action Plan for the period 2026–2027 will elaborate the measures through specific activities, an implementation timeline, an assessment of the required financial resources, clearly defined responsible entities and involved institutions, as well as indicators for measuring and monitoring the level of implementation and the effects of implementation.

Annex 4: Institutions involved in the preparation of ERP 2026-2028

The Economic Peform Programme 2026-2028 is a joint result of several institutions, and the overall preparation is coordinated by the Ministry of Finance.

Content of the Economic Reform Programme	Participants in the preparation of the Programme	
	Institution	Person in charge
1. Overall Policy Framework and Objectives	Ministry of Finance	Desanka Zdravkovska Alen Kalac
2. Implementation of the policy guidance	All institutions in charge	Desanka Zdravkovska, MoF
3. Macroeconomic framework		
3.1. Recent economic developments	Ministry of Finance National Bank	Alen Kalac, MoF Irena Rashovikj, MoF Ana Nikolova, MoF Aneta Krstevska, NBRNM
3.2. Medium-term macroeconomic scenario	Ministry of Finance National Bank	Gjoko Gjorgjeski, MoF Alen Kalac, MoF Irena Rashovikj, MoF Ana Nikolova, MoF Ornela Trajkoska Pendevska, Mof Aneta Krstevska, NBRNM
3.3. Alternative scenario and risks	Ministry of Finance National Bank	Alen Kalac, MoF Aneta Krstevska, NBRNM
4. Fiscal framework		
4.1. Fiscal strategy and medium-term objectives	Ministry of Finance	Tanja Kostovska Anica Ivanoska Floreta Hasani Aleksandra Altievska
4.2. Budget execution in 2025	Ministry of Finance	Viktorija Hristovska
4.3 Budget plan for 2026	Ministry of Finance	Tanja Kostovska Anica Ivanoska

		Floreta Hasani Aleksandra Altievska Sanja Manasijevic Manceva Renata Davitkova Panceva
4.4. Medium-term budgetary outlook	Ministry of Finance	Tanja Kostovska Anica Ivanoska Floreta Hasani Aleksandra Altievska Magdalena Simonovska Suzana Stojmiroska Natalija Kozovska Edis Ramcilovik
4.5. Structural deficit	Ministry of Finance	Gjoko Gjorgjeski Alen Kalac Irena Rashovikj
4.6. Public debt management, stock and projections of public debt trends	Ministry of Finance	Sanja Manasijevic Manceva Renata Davitkova Panceva
4.7. Sensitivity analysis and comparison with the previous programme	Ministry of Finance	Gjoko Gjorgjeski Alen Kalac Irena Rashovikj Sanja Manasijevic Manceva Renata Davitkova Panceva
4.8 Quality of public finances	Ministry of Finance	Tanja Kostovska Anica Ivanoska Floreta Hasani Aleksandra Altievska
4.9. Fiscal governance and budgetary frameworks	Ministry of Finance	Tanja Kostovska Anica Ivanoska Floreta Hasani Aleksandra Altievska
4.10. Sustainability of public finances	Ministry of Finance	Gjoko Gjorgjeski Alen Kalac Irena Rashovikj Ana Nikolova
5A. CONSISTENCY OF THE REFORM AGENDA WITH THE ERP'S MACRO-FISCAL FRAMEWORK		
POLICY AREA 1: GOVERNANCE/PAR AND PFM **SUB-AREA 1.1: Public Finance Management (PFM)**		
1.1.2: Strengthen the public procurement system **1.1.3: Full implementation of the 2022 Organic Budget Law, including reform in Public Investment Management**	Reforms within the competence of the Public Procurement Bureau and the Ministry of Finance	Desanka Zdravkovska, MoF
POLICY AREA 2: ENERGY/DIGITAL TRANSITION		

2.1.2.1: Implementation of climate and energy policies and measures as foreseen in the National Energy and Climate Plan (NECP) **2.1.3.1: Deployment of renewable energy: Implementation of the Renewable Energy Directive (permitting, guarantees of origin,) and transparent and competitive procedures for the deployment of renewable energy**	Reforms within the competence of the Ministry of Energy, Mining and Mineral Resources	Alen Kalac, MoF Ana Nikolova, MoF
SUB-AREA 2.2 DIGITALISATION		
2.2.2.3: Widen the offer of public e-services offered through the governmental eplatform and simplify administrative and electronic procedures	Reform within the competence of the Ministry of Digital Transformation	Alen Kalac, MoF
POLICY AREA 3: HUMAN CAPITAL **SUB-AREA 3.1. Education Skills**		
3.1.1. Reinforce the education system to address the skills mismatch, increase access to and quality of VET, and improve access to work-based learning and dual education (including private sector involvement) **3.1.2. Increase participation in adult education and improve recognition of non-formal and informal learning**	Reforms within the competence of the Ministry of Education and Science	Alen Kalac, MoF
POLICY AREA 4: PRIVATE SECTOR DEVELOPMENT AND BUSINESS ENVIRONMENT **SUB-AREA: 4.1 Business Environment**		
4.1.1: Address the informal economy in support of the recently adopted Strategy for Formalization of the Informal Economy **4.1.4: Support development of the innovation eco system through the implementation of the Smart Specialisation Strategy**	Reforms within the competence of the Ministry of Ekonomy and labor	Alen Kalac, MoF
4.1.6. Expand the use of E-Customs services for economic operators and reduce the costs and increase the efficiency of customs procedures	Customs Administration of the Republic of North Macedonia	Alen Kalac, MoF
POLICY AREA 5: FUNDAMENTALS/RULE OF LAW **SUB-AREA 5.2 Independence, quality and integrity of the judiciary** **SUB-AREA 5.4 Efficiency of the Judiciary** **SUB-AREA 5.5 Fight against Corruption**		
5.2.2. Adopt and implement a new Action plan for the prevention of corruption in the judiciary for 2026-2029 **5.4.1: Ensure a fully functional automated case management information systems in courts and in the Public Prosecutors' Office with no manual distribution of cases** **5.5.1: Additional resources allocated to the Office of the Basic Public Prosecutor for**	Reforms within the competence of the Ministry of Justice	Alen Kalac, MoF

Organised Crime and Corruption, notably specialised prosecutors, financial experts, and digital forensic analysts **5.5.2: Increase the number of investigations, prosecutions, final judgements, seizure, and final confiscations in corruption, including high-level cases**		
6. Institutional issues and stakeholder involvement	Ministry of Finance	Desanka Zdravkovska
7. Annexes		
Annex 1: Summary data	Ministry of Finance National Bank	Aneta Krstevska, NBRNM Gjoko Gjorgjeski, MoF Alen Kalac, MoF Irena Rashovikj, MoF Ana Nikolova, MoF Sanja Manasijevic Manceva Renata Davitkova Panceva, MoF Viktorija Hristovska, MoF Tanja Kostovska, MoF Anica Ivanoska, MoF Floreta Hasani, MoF Aleksandra Altievska, MoF
Annex 2: External debt sustainability analysis	National Bank	Aneta Krstevska
Annex 3: Status of Implementation of the Strategy for the Formalisation of the Informal Economy 2023–2027, with Action Plan 2023–2025	Ministry of Finance	Edis Ramcilovik

ABBREVIATIONS

CIT	Corporate income tax
CF	Christiano-Fitzgerald filter
CPI	Consumer price index
DSTI	Debt service to income ratio
DTI	Debt to income
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EIT RIS	European Institute of Innovation and Technology - Regional Innovation Scheme
ERP	Economic Reform Programme
FDI	Foreign Direct Investment
GDP	Gross domestic product
GVA	Gross Value Added
HICP	Harmonised Index of Consumer Prices
HP	Hodrick-Prescott filter
HPI	House Price Index
IFMIS	integrated financial management information system
IIP	International investment position
IMF	International Monetary Fund
IMF FAD	International Monetary Fund, Fiscal Affairs Department
IRENA	International Renewable Energy Agency
LGU	Local Government units
LTV	Loan to value
MAKStat	State Statistical Ofiice Database
MEAT	Most Economically Advantageous Tender
MoF	Ministry of Finance
MSIP	Municipal Services Improvement Project
MW	Megawatt
KW	Kilowatt
GW	Gigawatt
NBRNM	National Bank of the Republic of North Macedonia
NECP	National Energy and Climate Plan
OECD	Organisation for Economic Cooperation and Development
PFA	Production Function Approach
PPP	Public-Private Partnership
p.p.	percentage points
PRO	Public Revenue Office
PSD	Payment Services Directive
QDMTT	Qualified Domestic Minimum Top-up Tax
REER	real efective exchange rate
RA	Reform agenda 2024-2027
RES	renewable energy sources
SEPA	Single Euro Payments Area
SME	small and medium enterprises
SSO	State Statistical Office
TIPS	Target Instant Payment Settlement

TPP	Thermal Power Plant
TFP	total factor productivity
UNECE	United Nations Economic Commission for Europe
UTPR	Undertaxed Payments Rule
VAT	value added tax
VET	vocational education and training
WBIF	Western Balkan Investment Framework