GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA

2026 - 2028 PUBLIC DEBT MANAGEMENT STRATEGY OF THE REPUBLIC OF NORTH MACEDONIA
(with 2030 prospects)

Skopje, May 2025

CONTENTS

Pursuant to paragraph (5), Article 7 of the Public Debt Law ("Official Gazette of the Republic of Macedonia", nos. 62/05, 88/08, 35/11, 139/14 and "Official Gazette of the Republic of North Macedonia", nos. 98/19 and 151/21), the Government, at its session held on ______ 2025, adopted the 2026-2028 Public Debt Management Strategy of the Republic of North Macedonia (with 2030 prospects).

1. Introduction

Pursuant to Article 7 of the Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/05, 88/08, 35/11, 139/14 and "Official Gazette of the Republic of North Macedonia", nos. 98/19 and 151/21) sets out the preparation and the implementation of a medium-term Public Debt Management Strategy, which covers a period of three years, being adopted by the Government of the Republic of North Macedonia. Despite the legal obligation for three-year projections for both debt level and debt structure, Ministry of Finance increases the transparency when managing public finances by including two additional years, i.e. projections for public debt trend in the period 2026 - 2030. Projections on debt stock and structure are in line with the projections in the 2026 – 2028 Fiscal Strategy (with 2030 prospects).

Pursuant to the Law on Public Debt, Public Debt Management Strategy sets out the amount of public debt in the medium term, the maximum amount of net borrowing in the first year covered by the Strategy, the maximum amount of newly issued sovereign guarantees in the first year covered by the Strategy, as well as the general government debt structure.

Under the Public Debt Management Strategy, a framework is set for the Government of the Republic of North Macedonia to act towards prudent public debt management over the medium term. Objectives of public debt management policy set in the Law on Public Debt ("Official Gazette", nos. 62/05, 88/08, 35/11, 139/14 and "Official Gazette of the Republic of North Macedonia", nos. 98/19 and 151/21), are the following:

- financing the needs of the Government with the lowest cost possible, in the medium and the long run, with sustainable level of risk;
- identifying, monitoring and managing the risks which public debt portfolio is susceptible to, and
- developing and maintaining efficient domestic financial market.

Above-mentioned objectives will be attained by defining short- and medium-term limits of certain debt portfolio indicators.

2. Public Debt of the Republic of North Macedonia

Main principles taken into account when managing public debt portfolio, i.e. when preparing and implementing the Public Debt Management Strategy, are the following:

- determining the optimal structure of debt portfolio;
- aligning the debt portfolio-related costs with the costs set in the state Budget for each year separately and in the medium term;
- limiting and eliminating the effect of the risks on public debt sustainability in both the medium and the long run, and
- ensuring transparency in the process of debt incurrence.

At the end of 2024, general government debt[1] amounted to EUR 8,298.1 million, i.e. 53.8% of GDP. Total public debt, which includes the general government debt and the debt of public enterprises established by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje, amounted to EUR 9,619.4 million at the end of 2024, accounting for 62.4% of GDP.

Table 1: Public Debt Trend

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GENERAL GOVERNMENT DEBT	**3.262,5**	**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**	**8.298,1**
General Government debt as % of GDP	**38,1**	**38,1**	**39,9**	**39,4**	**40,4**	**40,5**	**50,8**	**51,4**	**50,5**	**53,1**	**53,8**
Guaranteed debt	658,9	774,0	859,9	828,4	857,7	942,2	929,5	1.007,4	1.053,7	1.151,0	1.264,4
Non-guaranteed debt	N/A	N/A	N/A	N/A	N/A	41,9	37,8	47,7	68,2	69,7	57,0
TOTAL PUBLIC DEBT	**3.921,3**	**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**
External public debt	2.725,1	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
Domestic public debt	1.196,2	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
Total public debt as % of GDP	**45,8**	**46,6**	**48,8**	**47,7**	**48,4**	**49,2**	**59,7**	**60,3**	**59,1**	**62,1**	**62,4**

Pursuant to the May 2019 amendments to the Public Debt Law, non-guaranteed debt of public enterprises and joint stock companies stablished by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje is included in the public debt.

Source:Ministry of Finance and NBRNM

[1]General government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of North Macedonia, the public institutions established by the Republic of North Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje. Public debt comprises the general government debt and the debt of public enterprises and joint stock companies established by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje.

From the point of view of general government debt interest structure, fixed-variable interest rate ratio was 77.5:22.5 respectively at the end of 2024. Share of the fixed interest rate debt increases as a result of the issued government bonds with fixed interest rate.

As regards currency composition of general government debt, debt denominated in domestic currency accounted for 33.3%, while share of foreign currency denominated debt was 66.7%. Euro-denominated debt accounted for the most with 61.4% of the total general government debt, share of SDR was 5.0%, Japanese yen-denominated debt accounted for 0.2% and US dollar-denominated debt accounted for 0.03%.

3. Public Debt Risk Management

Risk management policy is of crucial importance for public debt management, being the main link between proposing, designing, adopting and implementing the public debt management policy. Developing this policy is a challenge for the debt managers and it comprises identifying, measuring and managing the risks, taking into account risk-cost trade-off.

Main objective of public debt management is to ensure that government financing needs and liabilities are covered with the lowest costs in the medium and long run with an acceptable risk level. From the point of view of the risks the debt portfolio of the general government debt faces, certain improvement in measuring the re-financing risk and the interest rate risk indicators can be observed. In fact, as a result of the commitment of the Ministry of Finance to develop the domestic government securities market, process of restructuring the government securities portfolio has commenced since 2012, with securities with longer maturity being issued, and gradually reducing the issue of short-term instruments. Such strategy resulted in significant improvement in terms of re-financing risk and interest rate risk regarding the domestic debt portfolio. As regards the other risks, debt management in the medium term will be focused on maintaining the lowest cost possible under optimal level of risk.

Following appear as main risks identified while managing the debt portfolio of the Republic of North Macedonia:

1. re-financing risk;
2. market risk, including the following risks:
   - interest rate risk and
   - exchange rate risk;
3. risk associated with the contingent liabilities and
4. operational risk.

1. Refinancing risk is managed by preventing major part of the liabilities to fall due at once at any time and providing evenly distributed maturity of debt-related liabilities. Exposure of public debt portfolio to re–financing risk is measured by the debt repayment profile and the “average time to maturity” indicator. The greater the value of this indicator, the lesser the uncertainty, i.e. the re-financing risk.

In the period 2026 - 2030, average time to maturity of central government debt is expected to slightly decrease as a result of amortizing the concessional loans, while most of the borrowing are commercial loans. With respect to domestic debt, advancement in deepening the domestic securities market and extended maturity thereto was observed in the past years.

Table 2. Average Time to Maturity - ATM (years)

	2025	2026	2027	2028	2029	2030
Central Government debt	5,5	5,7	5,7	5,5	5,0	4,6
Domestic debt	6.7	6.6	6.2	5.5	5.0	4.8
External debt	4,2	4,8	5,1	5,6	4,9	4,3

Source: Simulations of the Ministry of finance

2. Market risk is determined by the exposure of debt portfolio to economic variables, especially the variation of interest rates on the domestic and the international capital market and the trends in foreign exchange rates. Identifying and managing market risks is crucial for the public debt portfolio since this risk is determined mainly by external factors, i.e. variations in interest rates on the international financial market where, due to their constant oscillations, medium- and long-term trend is very difficult to project.

Measuring and managing interest rate risk is especially important in the countries in which domestic financial markets are underdeveloped and the financing needs are covered from external sources under non-concessional terms, whereby exposure to interest rate risk is greater. Variation of interest rates on both the domestic and the international markets affects the debt-related costs, especially when fixed interest rate debt should be refinanced or when the interest on variable interest rate debt is re-set. Hence, close connection between the interest rate risk and the debt re-financing risk is evident.

ATR (average time to re-fixing) indicator measures the average time to re-fixing. Higher value of this indicator shows that larger portion of the debt portfolio will not be subject to significant interest rate re-fixing and such portfolio is a lower-risk portfolio.

Table 3. Average Time to Re-Fixing (years)

	2025	2026	2027	2028	2029	2030
Central Government debt	5,1	5,4	5,4	5,1	4,5	4,0
Domestic debt	6.7	6.6	6.2	5.5	5.0	4.8
External debt	3,6	4,2	4,5	4,7	3,8	2,9

Source: Simulations of the Ministry of finance

Exchange rate risk refers to debt indexed or denominated in foreign currency. Major portion of the debt denominated in foreign currency points out to higher exchange rate risk. This is a substantial risk for developing countries, wherein the external debt is fully-indexed.

Changes in the foreign exchange rate may largely affect the increase in the costs envisaged for repayment of public debt denominated in foreign currency.

However, taking into account the fact that the Republic of North Macedonia applies de facto fixed exchange rate of the denar in relation to the euro, exposure to such risk would be also measured as a share of the euro in the total general government debt portfolio which, according to the latest data for the fourth quarter of 2024, was actually prevalent currency with 61.4% share in the total debt structure.

3. Risk related to contingent liabilities - for the purpose of ensuring more favourable financing terms and conditions by the creditors, the government issues a sovereign guarantee to public debt issuers.

In order for the Budget not to be exposed to a risk of guarantee distress, process of issuance of new guarantees is strictly regulated and is subject to certain criteria the public debt issuers should fulfill. According to the amendments to the Law on Public Debt dated May 2019, management of contingent liabilities was improved by strengthening the capacities as regards issuance of borrowing consents. This activity was implemented in cooperation with the World Bank under the Government Debt and Risk Management Program. In fact, when issuing sovereign guarantee, Ministry of Finance performs credit analysis and assesses the creditworthiness of public debt issuers, in line with the prescribed assessment methodology. Such approach provides for harmonization with the international practice on issuance of sovereign guarantees.

4. Operational risk includes the settlement risk and the error risk. Settlement risk occurs if numerous non-automated activities are used during data processing, while error risk is closely related to the manner of segregating the tasks related to execution of transactions and their settlement across the units within the institution in charge of debt management. Information system (E-debt) is used for part of public debt management activities pertaining to registration of borrowings and their monitoring and servicing, thus significantly reducing the risk of human error. Measures to apply the "four eyes" principle are being undertaken in a timely manner, so as to avoid the risk from untimely performance of the tasks in case the responsible person is prevented from fulfilling the working tasks due to whatever reason. For the purpose of reducing the operational risks, and by following the digitalization trends, digitalized payments towards foreign creditors were made by introducing electronic banking with the NBRNM which makes the foreign repayments.

4. Development of Government Securities Market

One of the main objectives of public debt management is to provide for development of the domestic government securities market, thus creating conditions for reducing the debt re-financing risk, ensuring resistance to external shocks and long-term sustainability of debt.

To the end of more efficient financing of the budget needs, Ministry of Finance will continue to regularly issue government securities (GS), thus ensuring additional financing under favourable terms and conditions, depending on the interest of the market participants.

The purpose is to issue, on regular basis, treasury bills and government bonds with medium- and long-term maturities depending on the market conditions.

Taking into account the so-far experience in issuance of GS, frequency of issuance of securities corresponds to the market needs. To that end, Ministry of Finance will continue the pace of issuance of GS set by the market.

In line with the Denarization Strategy, Ministry of Finance will focus on issuance of Denar government securities in the coming period. Ministry of Finance, together with the National Bank, is working on replacing the two-decade old electronic system for conducting auctions of government securities and developing a new national electronic system for conducting auctions of government securities, wherein new protocols and safety standards will be implemented, while also providing for its upgrade and harmonization with the modern safety IT technologies.

In the coming period, actions will be taken on developing and transiting the entire process towards a more modern electronic system for conducting auctions of government securities, thus taking advantage of all benefits and analytical possibilities, which such system would offer.

At the same time, Ministry of Finance will also continue with promotional activities for expanding the base of investors in GS by carrying out marketing campaign before different target groups of investors and by maintaining regular dialogue with all participants in the government securities market.

4.1. Denationalization Bonds

Denationalization bonds are registered securities, denominated in euro and unrestrictedly negotiable. Face value of a single bond is EUR 1, with 2% interest rate annually. Face value and interest are paid to the bond holders within 10-year period, in 10 equal installments.

Denationalization bonds can also be traded on the secondary market on the Macedonian Stock Exchange.

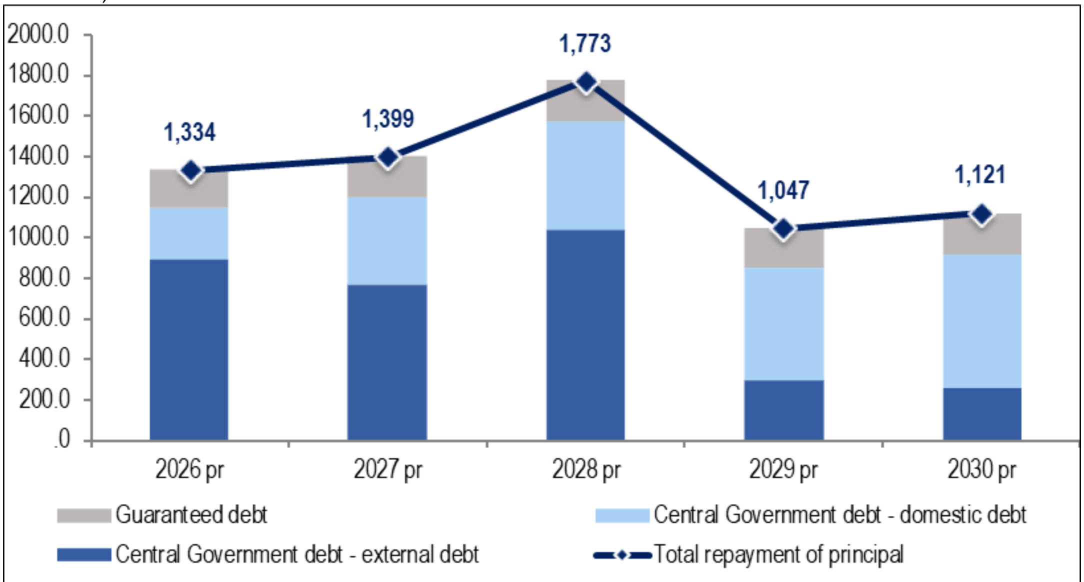
5. Public Debt Limits

Limits on debt amount and structure can serve as prudent fiscal policy anchor to ensure fiscal sustainability.

The public debt level is considered sustainable if it provides for timely servicing of debt liabilities in the longer run, which depends on several factors such as: the level of development of the domestic financial market, the liquidity of the international capital market, the economic growth rate, the inflation rate, the level of budget balance and similar.

In the period 2026 - 2030, implementation of investments, which were launched in the previous period by the public debt issuers, is expected to continue, with a strong commitment not to disrupt the long-term sustainability of the country's indebtedness level. In addition, part of the borrowing is determined to be used for covering the budget deficits, i.e. uninterrupted payments from the Budget, while part of the borrowing will also be intended for refinancing prior debts as they fall due in the coming period. In the coming medium-term period, the following larger repayment amounts fall due: EUR 700 million in 2026 for the Eurobond issued in 2020, EUR 500 million in 2027 for the Eurobond issued in March 2023, as well as EUR 700 million in 2028 for the Eurobond issued in 2021. In order to ensure sources of financing the needs of the Government with the lowest costs in the medium and the long run, accompanied by a sustainable level of risk, public debt management policy defines several medium-term limits and short-term limits, in line with the Law on Public Debt.

Chart 1. Repayment Profile of Central Government Debt and Guaranteed Debt (EUR million)



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

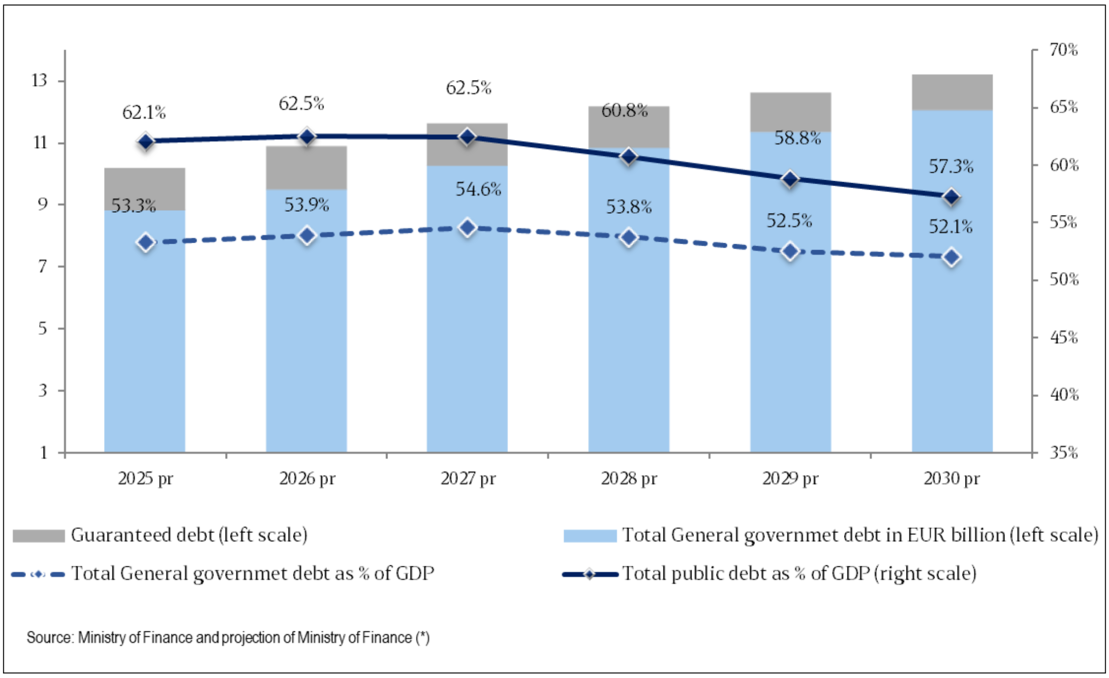
5.1. Limits on Public Debt and Guaranteed Debt Amounts

Medium-term limits are used to compile the framework for the movement of public debt in the period 2026 – 2030. Such limits define the maximum sustainable level of total public debt in relation to GDP and the level of guaranteed public debt in relation to GDP. In addition, in order to reduce the risk factors affecting the total public debt portfolio, medium-term limits on currency and interest structure of the general government debt are determined.

In order to keep level of public debt sustainable, without thereby disrupting the fiscal sustainability, **limit on total public debt level over the medium and the long run is set, which is not to exceed 60% of GDP.**

As per the medium-term projections prepared on the basis of the medium-term budget framework determining the need for budget deficit financing in the medium term, repayments of previously incurred debts, as well as implementation of projects beyond the central government, by 2027, public debt will exceed the maximum limit of 60% of GDP, i.e. it will account for 62.5% of GDP, which is to register moderate drop as a result of gradual fiscal consolidation starting 2028. Downward trend will also continue in 2030, when it is expected for public debt to stabilize and account below the limit of 60% of GDP, i.e. to account for 57.3% of GDP.

Chart 2: Projections on Total Public Debt (General Government Debt and Guaranteed Debt)



Net borrowing in 2026 includes the planned borrowing within the general government debt, reduced by the repayments therefore. **Short-term maximum limit on net borrowing (domestic and external) on the basis of general government debt in 2026 is set at EUR 800 million.**

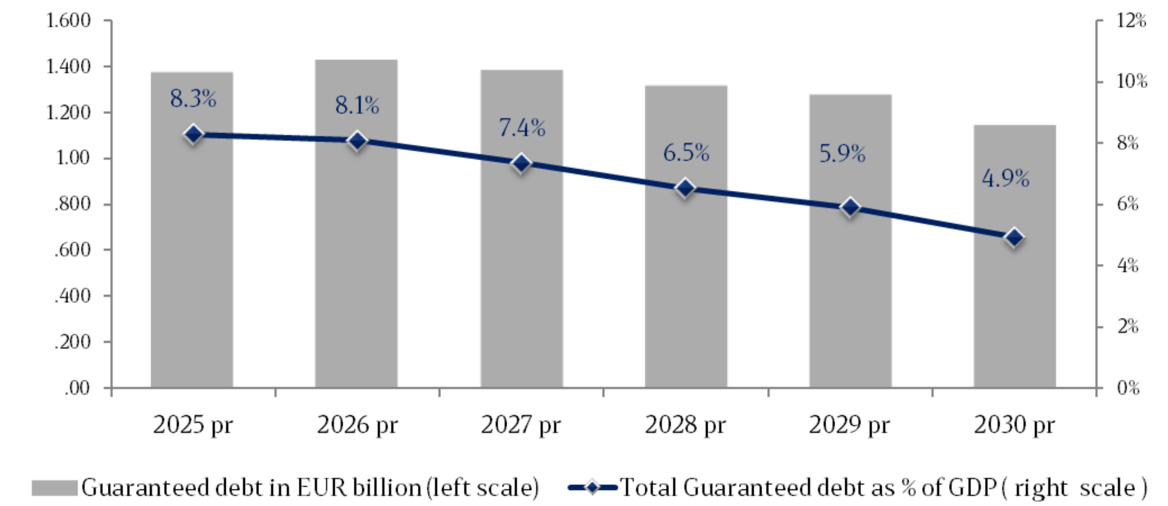
Issued sovereign guarantees are a contingent liability in the State Budget, i.e. there is a risk of increased costs related to servicing in case the guarantees are called up. Therefore, sustainable level of issued guarantees in the medium term is of great importance for the Ministry of Finance. Hence, when selecting the projects to be issued a sovereign guarantee for, special emphasis is put on self-sustaining projects, which generate revenues, support the economic growth and provide for boosted competitiveness of the domestic economy in the medium term, which are in line with the strategic priorities of the Government of the Republic of North Macedonia, and justify the purpose which the funds are used for. **To that end, it is determined for the**

limit on the level of guaranteed public debt not to exceed 15% of GDP in the period 2026- 2030.

In line with the projections, in the period 2026-2030, level of guaranteed public debt is expected to be below the set maximum limit, as well as to record downward trend from 8.1% in 2026 to 4.9% in 2030.

In the period 2026-2030, projects in the field of road infrastructure and energy, financed with sovereign guarantee loans, are expected to be implemented, whereby the **limit on maximum net borrowing on the basis of guaranteed debt in 2026 is set up to EUR 250 million.**

Chart 3: Guaranteed Public Debt



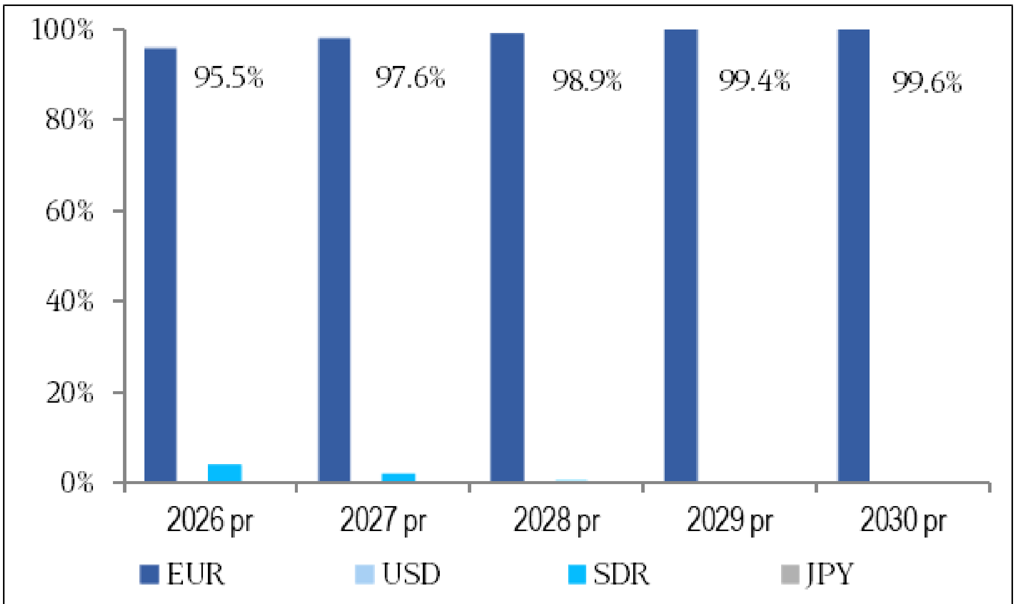
Source:Ministry of Finance and projetion of Ministry of Finance (*)

5.2. Limits on Debt Structure

Changes in the exchange rate could largely affect, i.e. increase, the envisaged costs for repayment of the debt denominated in foreign currency. However, given the fact that as of 1995, Republic of North Macedonia applied de facto fixed exchange rate of the Denar in relation to the Deutsch mark, and since 2002 onwards, it applies de facto fixed exchange rate of the denar in relation to the euro, whereby such policy will continue in future, exposure to such risk would be measured as a share of the euro in the total public debt portfolio. **Thereby, limit on the general government debt denominated in foreign currency - minimum threshold of euro-denominated debt in the total general government debt portfolio denominated in foreign currency is determined to be 80% in the period 2026-2030.**

Dominant share of euro-denominated debt is evident in the currency structure projections, experiencing moderate increase in the medium term as a result of the commitment of the Ministry of Finance to the new external borrowing to be denominated in euros. Thereby, in the period 2026-2030, share of euro-denominated debt in the total general government debt portfolio denominated in foreign currency is significantly above the minimum threshold. In addition, share of other currencies refers to loans denominated in US dollars, Japanese yen and SDR for credit lines concluded mainly in the past, being amortized in the period which the projections refer to.

Chart 4: Currency Structure of General Government Debt Denominated in Foreign Currency

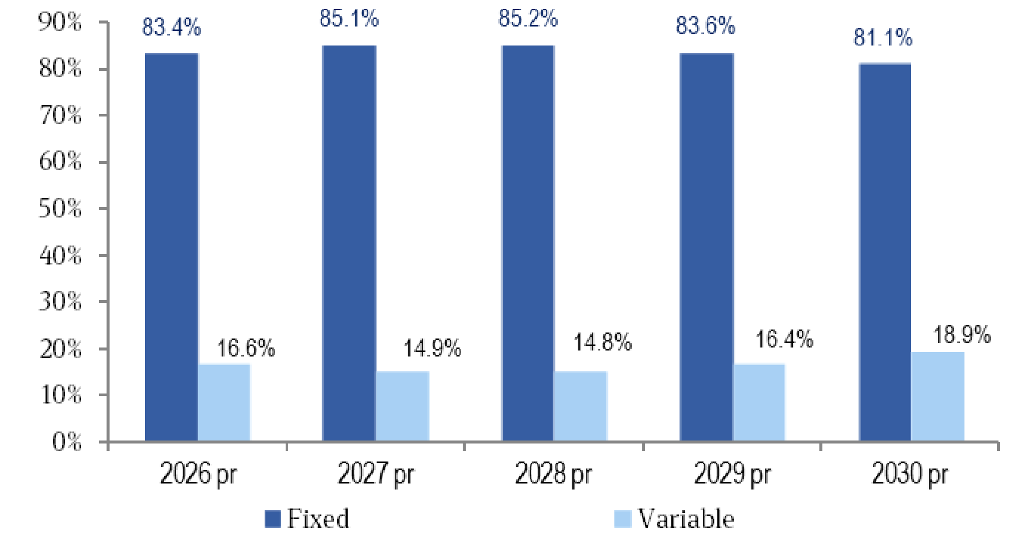


Source: Ministry of Finance and projection of Ministry of Finance (*)

In order to protect general government debt portfolio against potential future market shocks, i.e. unfavorable changes of interest rates that directly lead to increase of the costs to the Budget of the Republic of North Macedonia, maintaining optimal interest rate structure of general government debt portfolio is one of the objectives debt managers aim at. **Hence, limit on interest rate structure of general government debt - minimum threshold of debt with fixed interest rate debt is determined to be 60% for the period 2026-2030.**

Taking into account the current structure of general government debt portfolio, as well as the medium-term projections, in the period 2026-2030, fixed-interest rate debt is significantly higher than the set minimum threshold. This reflects the commitment of the Ministry of Finance to issue long-term securities on the domestic market, as well as the commitment to borrowing on the basis of instruments with fixed interest rate on the international capital market.

Chart 5: Interest Rate Structure of General Government Debt



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

Threshold on debt refinancing indicator - showing the average time for re-financing the debt is calculated within this Strategy. This indicator also shows the portion of central government debt portfolio falling due in the course of the next year. In addition, indicator of average time to re-fixing (showing the average time for re-setting the interest rates on the debt portfolio) is also calculated. More precisely, in order to protect the central government debt portfolio against the re-financing risk, limit on re-financing risk - **minimum threshold of "average time to maturity" indicator in 2026 is determined to be 4 years.** Moreover, in order to protect the central government debt portfolio against the interest rate risk - **minimum threshold of "average time to re-fixing" indicator in 2026 is determined to be 3 years.**

6. Analysis of the Scenario on Effects of Interest Rate Risk and Currency Risk on the External General Government Debt

In order to analyze the exposure of debt portfolio of the Republic of North Macedonia to the market risk, 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). 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, i.e. 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;
- non-correlation between interest rate trends and trends in the foreign exchange rate.

Table 4: Sensitivity analysis of costs related to servicing the external general government debt in cases of interest rate re-fixing and changes in foreign exchange rates

Index numbers	2026	2027	2028	2029	2030
Baseline scenario	100.0	100.0	100.0	100.0	100.0
Scenario I - increase of respective interest rates by 1 percentage point	106.4	106.2	106.5	106.6	108.1
Scenario II - appreciation of other currencies in the portfolio in relation to the euro by 10%	100.8	101.4	100.8	100.7	100.3

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

1. servicing-related costs on the basis of interest on external general government debt are 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 6.5%, i.e. by EUR 9.6 million, with similar effects in the period 2027-2030. Such sensitivity could be explained as exposure of debt portfolio to interest rate risk;

2. 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%, i.e. by EUR 8.2 million in 2026. Given the obtained results, it may be concluded that possible unfavorable 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.

7. Debt Portfolio Optimization

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 optimization of debt-servicing costs by actively managing the debt portfolio.