INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/101

REPUBLIC OF NORTH MACEDONIA

2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

May 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of North Macedonia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended February 26, 2025, with the officials of the Republic of North Macedonia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 8, 2025.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 25/129

IMF Executive Board Concludes 2025 Article IV Consultation with the Republic of North Macedonia

FOR IMMEDIATE RELEASE

- Growth in North Macedonia is anticipated to reach 3.3% in 2025, driven by domestic demand and public investment projects, although heightened external risks and uncertainties may weigh on this outlook.
- The National Bank has effectively managed recent challenges including bringing down inflation after the energy cost shock and is cautiously easing monetary policy. However, risks remain particularly linked to persistent core inflation driven by strong wage growth.
- The fiscal budget recorded a deficit of 4.4% of GDP, while public debt rose to 63% of GDP in 2024. Fiscal consolidation is essential to abide by fiscal rules and build policy buffers in an uncertain environment.

Washington, DC – May 6, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for North Macedonia[1] and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis[2]. The authorities have consented to the publication of the Staff Report prepared for this consultation.

Economic growth in North Macedonia is gaining momentum in an environment of increased uncertainty. Growth is expected to reach at 3.3 percent in 2025, driven by stronger domestic demand as public investment projects (including the Corridor 8/10d road project) intensify and consumption is supported by government transfers and real wage growth. However, weak external demand, influenced by structural shifts in the European automotive sector and global uncertainties, is expected to weigh on growth.

Inflation has been volatile, increasing towards the end of 2024, but has fallen recently, in line with energy and food prices. Core inflation has become the main driver and remains persistent, fueled by strong wage growth. The National Bank of the Republic of North Macedonia (NBRNM), which has effectively managed recent challenges including the energy cost shock, has begun easing monetary policy more cautiously and with a lag following the European Central Bank.

The pace of fiscal consolidation in 2024 was slower than anticipated, in the context of an election year. Spending increases, including on wages and a new pension law replaced

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

indexation with an ad-hoc 20 percent increase of the monthly average pension, resulting in a budget deficit of 4.4 percent of GDP. Public debt continues its upward trend, reaching 63 percent of GDP by end-2024. Fiscal rules include a limit on the budget deficit of 3 percent of GDP and a limit on general government debt of 60 percent of GDP, requiring the government to commit to a 5-year corrective plan when these limits are breached.

Domestic risks are elevated and the external outlook more uncertain. Weak public investment, stalled productivity reforms, emigration, and slowing activity of key trade partners threaten growth in the medium-term. Meanwhile, high real wage growth without productivity gains and increased fiscal transfers could further fuel inflation and erode competitiveness. Trade policy shifts and shocks to FDI may suppress exports and tighten financial conditions.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Chair, issued the following statement:

Executive Board Assessment

In concluding the 2025 Article IV consultation with North Macedonia, Executive Directors endorsed staff's appraisal, as follows:

The economy is expected to gain momentum, though risks are tilted to the downside. Growth is projected to reach 3.3 percent in 2025, driven by stronger domestic demand as public investment projects, including the Corridor 8/10d road project, intensify and consumption is supported by government transfers and real wage growth. However, inflation has accelerated with high food inflation despite administrative price controls and other interventions. Core inflation remains persistent fueled by strong wage growth. Domestic risks from weak public investment, emigration and stalled productivity reforms are elevated, while the external outlook has become more uncertain due to shocks to external demand from structural shifts in key partners and trade policy tensions. The external position in 2024 was assessed as stronger than the level implied by medium-term fundamentals and desirable policies.

A credible fiscal strategy is essential to rebuilding buffers, reducing debt and ensuring compliance with fiscal rules. This is key to maintaining market confidence, ensuring access to international capital, creating room for investment, and enhancing resilience against future shocks. The focus should be on:

- Controlling current spending: Further pension increases in September 2025 should be omitted and the authorities should return to a rule-based pension system in 2026—indexing only to inflation—to support consolidation while protecting pensioners' purchasing power. Public wage increases should be limited to inflation in the near term. The authorities should strengthen oversight to ensure public wage increases are consistent with achieving the fiscal rules. Over time, unifying the fragmented wage negotiating system will help prevent unexpected budget pressures.

- Mobilizing revenues. Tax reforms should focus on reducing tax expenditures, limiting reduced rates and exemptions, improving tax compliance, and revamping property tax.

Structural fiscal reforms are needed to strengthen fiscal governance and improve spending efficiency. Key steps include implementing the Public Investment Management decree and manual, adopting the PPP law, and conducting spending reviews to optimize budget spending. Managing fiscal risks, especially from SOEs and major projects like the

Corridor 8/10d road, is crucial. The state-owned electricity generator, ESM, requires investments in technology and efficiency improvements to lower production costs and expand production, while gradually reducing its role in the subsidized, regulated market. Risks to the budget remain if production expansion falls short of the ambitious goal. The operationalization of the Fiscal Council is a positive step and it is encouraged to strengthen its independent assessments.

Administrative price controls will not stem long-term food inflation and may create distortions and hinder competition in the sector. Food inflation remained elevated in 2025, despite frequent use of administrative price controls. Future use may delay price increases, quelling short-term inflation, but does not solve underlying structural factors and can lead to large price increases once measures are removed. Additionally, continued reactionary interventions create uncertainty that may deter potential entrants hurting competition. To counter inflation, the authorities should instead focus on tightening fiscal policy and maintaining a tight monetary stance.

Policy rates should remain on hold and liquidity measures should be tightened until inflation steadily declines. Given the recent acceleration in both headline and core inflation, the NBRNM should remain on hold until there is clear evidence of sustained disinflation, including in core. At the same time, liquidity conditions should be tightened using tools such as reserve requirements to absorb excess liquidity. The NBRNM must stay alert to inflationary risks from domestic factors, including wage and pension increases, as well as heightened external risks from trade uncertainties. If these risks materialize, the NBRNM should be prepared to tighten rates to prevent inflation from becoming entrenched.

Macro prudential settings may need to be tightened to slow credit growth. The implemented loan-to-value and debt service-to-income ratios help safeguard financial stability by reducing pressures in the real estate market and preventing higher levels of indebtedness. Staff support the NBRNM's gradual tightening of the countercyclical capital buffer and additional capital requirements to ensure banks maintain adequate loss-absorbing and recapitalization capacity, in line with EU regulations. Should lending and real estate prices continue growing briskly, further tightening of macroprudential instruments may be warranted.

Preserving central bank autonomy is crucial for maintaining price stability, exchange rate stability, and financial stability. The recent amendments to the National Bank law, adopted without prior consultation with the NBRNM, reallocate a larger share of NBRNM profits to the budget and revert the profit retention mechanism to a static core capital number instead of being dynamic, based on monetary liabilities. These changes undermine the previously established risk-based profit retention, which was designed with IMF advice to strengthen the bank's reserves, and risk weakening the financial and policy autonomy, and credibility of the NBRNM.

Structural reforms are needed to boost productivity, offset the drag from emigration, and advance in the EU accession process. Reducing informality through streamlined business registrations and expanded digital public services is a priority to improving the business environment and supporting productivity growth. Capital expenditures should be safeguarded in the budget and public investment management should be strengthened to prioritize high-impact projects. The ongoing road projects should be completed. Investing in education, incentivizing higher participation, particularly among women, better matching of skills, and simplifying work permit procedures for foreign workers would help address labor shortages. Expanding affordable childcare and gradually raising the retirement age of women would help to offset workforce losses from high emigration. Ad hoc adjustments to minimum wages should be avoided to contain inflation and preserve competitiveness. Public resource efficiency, accountability, and transparency could be improved through increasing digitalization, reassessing state aid schemes, and strengthening procurement systems and management of SOEs.

Governance reforms to improve predictability of legal and regulatory environment, functioning of the rule of law, and anti-corruption efforts are crucial. Improving judicial independence and impartiality would strengthen contract enforcement and help reduce informality. The Criminal Code should be aligned with international standards and resource adequacy in key anti-corruption institutions further enhanced. The predictability of the legal and regulatory environment could be improved by limiting the use of expedited procedures in Parliament, increasing stakeholder consultation, and consistently applying regulatory requirements. The upcoming new national anti-corruption strategy is an opportunity to accelerate reforms through stronger accountability and coordination.

Republic of North Macedonia: Selected Economic Indicators, 2020–30

(Year-on-year percentage change, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections					
Output											
Real GDP	-4.7	4.5	2.8	2.1	2.8	3.3	3.2	3.2	3.1	3.1	3.0
Domestic demand	-5.3	5.9	5.8	-1.7	4.1	3.8	3.6	3.6	3.5	3.6	3.4
Exports	-10.9	14.3	10.6	-0.6	-3.8	3.2	3.7	3.6	3.8	3.8	3.8
Imports	-10.9	14.8	9.3	-2.1	-0.6	3.9	4.1	4.0	4.1	4.2	4.1
Contributions to growth 1/											
Domestic demand	-7.2	8.1	4.1	0.5	5.0	4.7	4.5	4.5	4.4	4.5	4.3
Net exports	2.5	-3.6	-1.3	1.6	-2.2	-1.4	-1.3	-1.3	-1.3	-1.4	-1.3
Output gap (percent of potential GDP)	-3.3	-1.8	-1.5	-1.5	-0.7	-0.4	-0.3	-0.1	0.0	0.0	0.0
Consumer prices											
Period average	1.2	3.2	14.2	9.4	3.5	3.4	2.2	2.0	2.0	2.0	2.0
End-period	2.3	4.9	18.7	3.6	4.3	2.3	2.0	2.0	2.0	2.0	2.0
Central government operations (percent of GDP)											
Revenues	28.4	30.0	29.8	30.9	32.3	34.1	34.0	34.2	34.4	34.6	34.8
Expenditures	36.4	35.3	35.0	35.5	36.7	39.2	38.5	38.2	37.9	37.6	37.8
Of which: capital expenditures	2.4	3.2	3.5	4.8	3.0	4.9	4.9	5.0	5.0	5.0	5.2
Balance	-8.0	-5.3	-5.2	-4.6	-4.4	-5.0	-4.5	-4.0	-3.5	-3.0	-3.0
Gross general government debt 2/	50.8	52.7	50.4	50.8	54.8	52.9	54.5	55.4	56.1	56.2	56.2
Public and publicly guaranteed debt 2/ 3/	59.4	61.3	58.4	58.7	63.0	61.2	62.7	63.5	64.2	64.3	64.2
Savings and investment (percent of GDP)											
National saving	27.0	29.4	30.0	30.0	26.3	26.8	27.3	27.7	28.0	28.3	28.9
Public	-5.6	-2.1	-1.7	0.2	-1.4	-0.1	0.4	1.0	1.6	2.1	2.3
Private	32.6	31.5	31.7	29.8	27.7	26.9	26.9	26.7	26.4	26.3	26.6
Foreign saving	2.9	2.8	6.1	-0.4	2.3	2.4	2.5	2.5	2.5	2.5	2.5
Gross investment	29.9	32.2	36.0	29.6	28.6	29.3	29.8	30.2	30.5	30.8	31.4
Credit											
Private sector credit growth	4.9	8.0	9.3	5.3	10.3	9.2	8.7	8.1	7.0	6.8	6.6
Balance of payments											
Current account balance (percent of GDP)	-2.9	-2.8	-6.1	0.4	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5
Foreign direct investment (percent of GDP)	1.4	3.3	4.9	3.3	7.1	4.7	4.0	4.0	4.0	4.0	4.0
External debt (percent of GDP)	78.7	80.9	81.5	77.9	79.9	76.7	76.8	76.6	75.6	75.1	74.7
Gross official reserves (millions of euros)	3,360	3,643	3,863	4,538	5,029	4,966	5,214	5,407	5,464	5,555	5,742
in percent of IMF ARA Metric	113	110	101	114	120	111	113	112	110	108	107
in percent of ST debt	102	109	82	100	97	93	101	101	111	110	113
in months of prospective imports	4.2	3.5	3.9	4.7	5.0	4.7	4.7	4.6	4.4	4.3	4.2
Memorandum items:											
Nominal GDP (billions of denars)	669	729	816	898	949	1022	1082	1146	1208	1272	1343
Nominal GDP (millions of euros)	10,852	11,836	13,243	14,583	15,411	16,604	17,583	18,619	19,621	20,668	21,819

Sources: NBRNM; SSO; MOF; World Bank; and IMF staff estimates and projections. National accounts are revised by SSO using ESA 2010.
1/ The inconsistency between real GDP growth and contributions to growth results from discrepancies in the official data on GDP and its components.
2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.
3/ Includes general government and non-financial SOEs.

INTERNATIONAL MONETARY FUND

REPUBLIC OF NORTH MACEDONIA

April 8, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

KEY ISSUES

Context. As the economy recovers from the energy crisis, growth is gaining momentum, but inflation is rising again. A weak European outlook is dampening exports and private investment. Meanwhile, buffers are being eroded as public debt continues to rise with increases in wages and pensions. Emigration poses a significant challenge to the medium-term economic outlook, while slow progress on structural reforms continues to hinder convergence with EU income levels.

Recommendations. The authorities should formulate comprehensive policies to put public finances on sound footing, control inflation, and implement reforms to offset the drag from emigration and boost productivity to reignite income convergence.

- **Fiscal policy.** The consolidation path in the Medium Term Fiscal Strategy should be underpinned by concrete and credible measures to bring down the budget deficit to a fiscal rule consistent level. Revenue mobilization and expenditure management to rein in pension and government wage growth would support the consolidation and create space for public infrastructure investment.

- **Monetary policy.** Given the recent acceleration in both headline and core inflation, the National Bank should remain on hold until there is clear evidence of sustained disinflation, and stand ready to tighten if inflation risks materialize. At the same time, reserve requirements should be tightened to absorb excess liquidity.

- **Financial sector.** Staff support the central bank's gradual tightening of the countercyclical capital buffer and additional capital requirements to ensure banks maintain adequate buffers. Should lending and real estate prices continue growing briskly, further tightening of macroprudential instruments may be warranted.

- **Structural policies.** Efforts should focus on improving labor market outcomes to stem emigration and reduce informality, enhancing the business environment, increasing the quality of infrastructure investment, promoting energy sector reforms, safeguarding central bank autonomy and strengthening the rule of law, anti-corruption efforts, and advancing other governance reforms.

Approved By
Oya Celasun (EUR) and Niamh Sheridan (SPR)

Discussions took place in Skopje between February 12–26, 2025. The mission met with Finance Minister Dimitrieska-Kochoska, Governor Angelovska-Bezhoska, Energy Minister Bozinovska, and other senior officials from the ministries of Finance, Digital Transformation, Public Administration, Environment and Physical Planning, and Labor and Social Policy, the National Bank of the Republic of North Macedonia, the Public Revenue Office, the Parliamentary Finance and Budget Committee, the Fiscal Council, the State Audit Office, the State Commission for Prevention of Corruption, the Energy Regulatory Commission, the Public Enterprise for State Roads, the Employment Agency, as well as representatives from the banking sector, industry, trade unions, the EU, US Embassy, and international financial institutions.
The staff team comprised Ms. Kyobe(head), Ms. Popescu, Messrs. Ayerst, Xiao (all EUR), Mr. Bartkus (SPR) and Mr. Sosa (Resident Representative), Ms. Kovachevska Stefanova and Mr. Sulejmani (IMF Local Economists). Messrs. van Rij and Verhelst (both OED) attended some of the meetings. Mses. Ma, Murillo (both EUR), and Davceva Mijoski (IMF Local Office) assisted the mission.

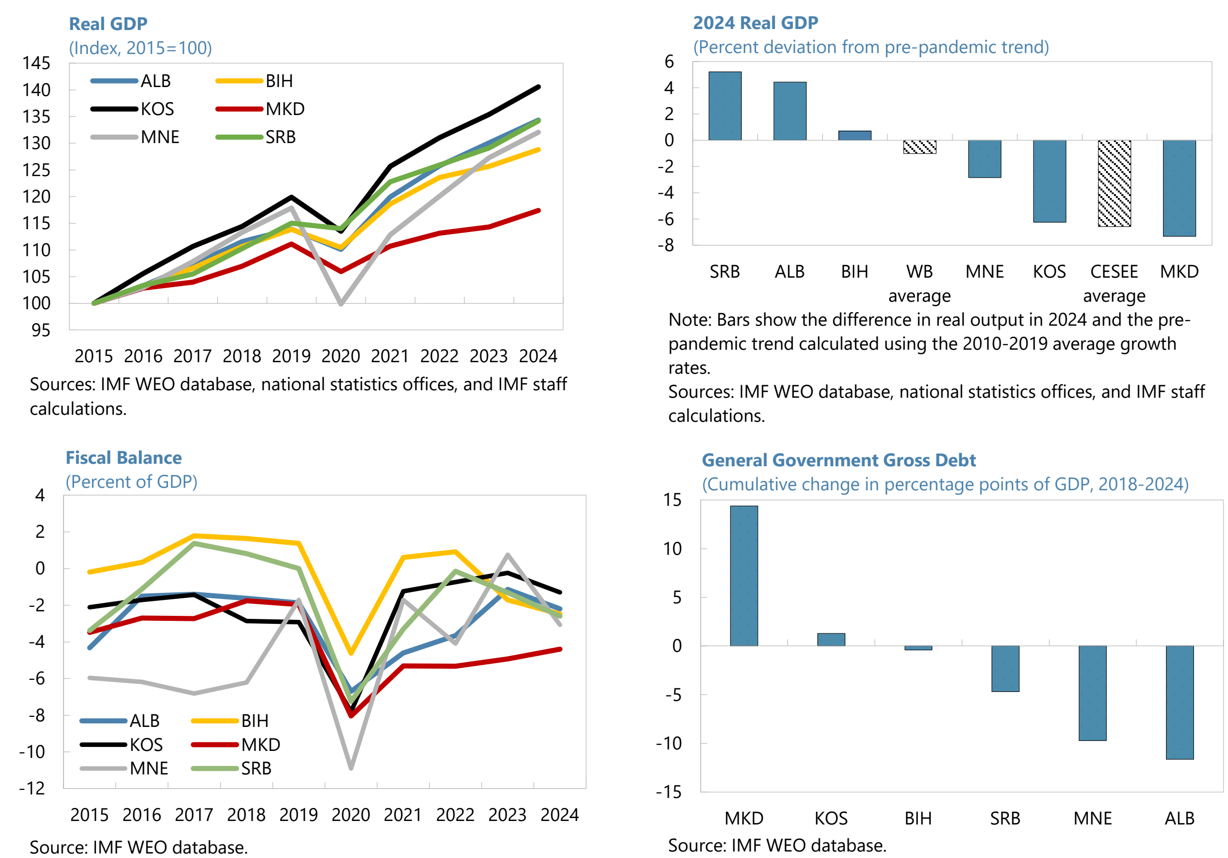
CONTENTS

ANNEXES

CONTEXT

1. **North Macedonia continues to face sizeable economic challenges in an environment of successive shocks and elevated global uncertainty.** Supported by the Precautionary and Liquidity Line (PLL) with the Fund, the economy has withstood the headwinds from the recent European energy crisis. However, slow progress in structural reforms has hampered convergence with the EU. Over the past decade, growth has lagged regional peers, and the post-pandemic recovery has been sluggish (Text Figure 1). Real output remains about 7 percent below pre-pandemic trends. Public debt is rising rapidly, in contrast with the rest of the region, as consolidation has lagged.

Text Figure 1. North Macedonia: Economic Growth and Fiscal Performance



2. **A new government is in place since June 2024, but many policies are yet to be developed.** Elections were won by the main opposition party (VMRO-DPMNE) on an agenda of tackling corruption and reigniting growth. Ahead of municipal elections in October 2025, the new government's fiscal policies have been expansionary, increasing spending on pensions, wages and transfers. The government signed the Reform Agenda under the Growth Plan for the Western Balkans (see Annex V). However, constitutional amendments recognizing Bulgarians as a constituent nation—required to open EU accession negotiation chapters—have not been passed.

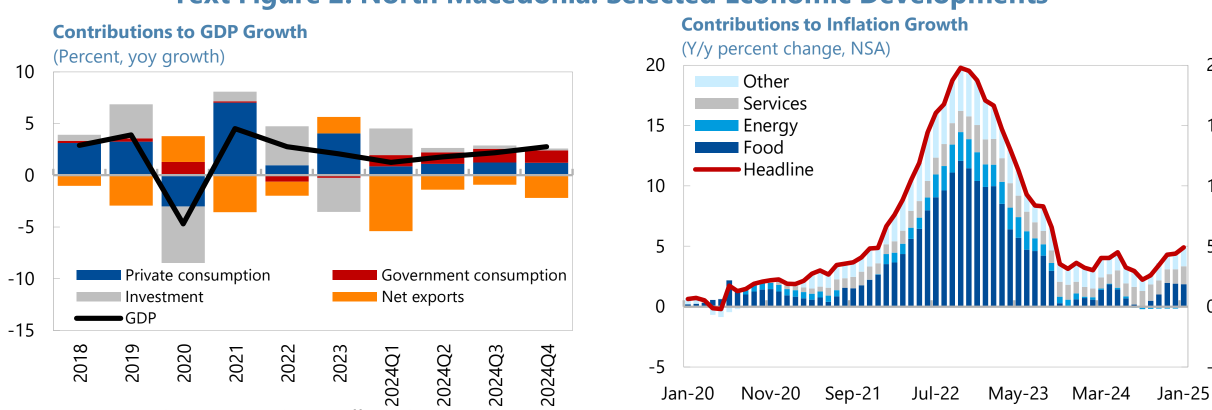
3. The PLL expired in November 2024 with only the first review completed. Under the arrangement SDR 203.44 million (145 percent of quota) was disbursed. During the PLL effective monetary policy tightening supported disinflation and reduced pressures on the exchange rate. The external balance improved faster than expected, allowing North Macedonia to exit the arrangement with higher reserves. The authorities made some progress on fiscal-structural reforms, for example, reducing subsidies, strengthening PFM and passing the Organic Budget Law. The second review was delayed and eventually not completed due to increased policy uncertainty amid elections, difficulties in controlling current expenditure, and lack of sufficient information that would have allowed to assess the fiscal risks of the Corridor 8/10d road project.

RECENT DEVELOPMENTS

4. Growth is gaining momentum. Real GDP growth accelerated to 3.2 percent year-on-year (y/y) in the fourth quarter of 2024, lifting annual growth to 2.8 percent. The main driver has been government consumption, while weak private consumption and declining exports have held back output growth, despite a rebound in investment after a weak 2023 (Text Figure 2). Having experienced significant declines in real income in 2022, households have shown a low propensity to consume the real wage gains achieved in 2023 and 2024, preferring to save and capitalize on the highest deposit rates in over a decade.

5. Following a sharp decline, inflation has started to rise again. Headline inflation dropped to 3.5 percent in 2024, down from 9.4 percent in 2023, driven by lower energy and food prices. After a low in August 2024, inflation begun to accelerate reaching 4.9 percent y/y in January 2025. Despite the frequent use of administrative price controls, food inflation remained high at 2.9 percent in 2024, contributing to around one-third of headline inflation. Further price controls on food items and limits to profit margins were announced in February in an effort to rein in food inflation. Core inflation has become the largest contributor to headline inflation, having remained more persistent at around 5 percent, partly due to high nominal wage growth at 12.6 percent in 2024. Following a decline in 2023, employment growth has picked up to around 0.6 percent y/y in the first three quarters of 2024.

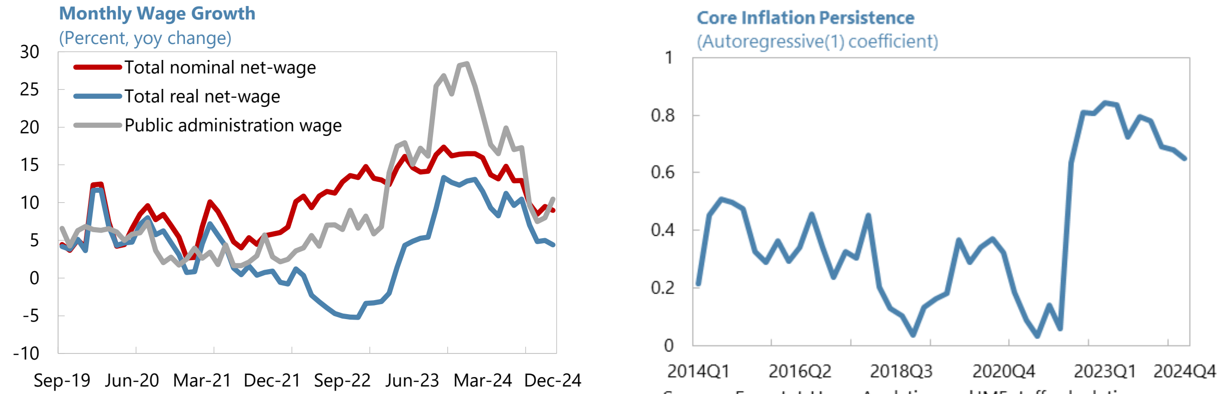
Text Figure 2. North Macedonia: Selected Economic Developments



Sources: Haver Analytics, SSO, and IMF staff calculations.

Sources: Haver Analytics and IMF staff calculations.

Text Figure 2. North Macedonia: Selected Economic Developments (concluded)

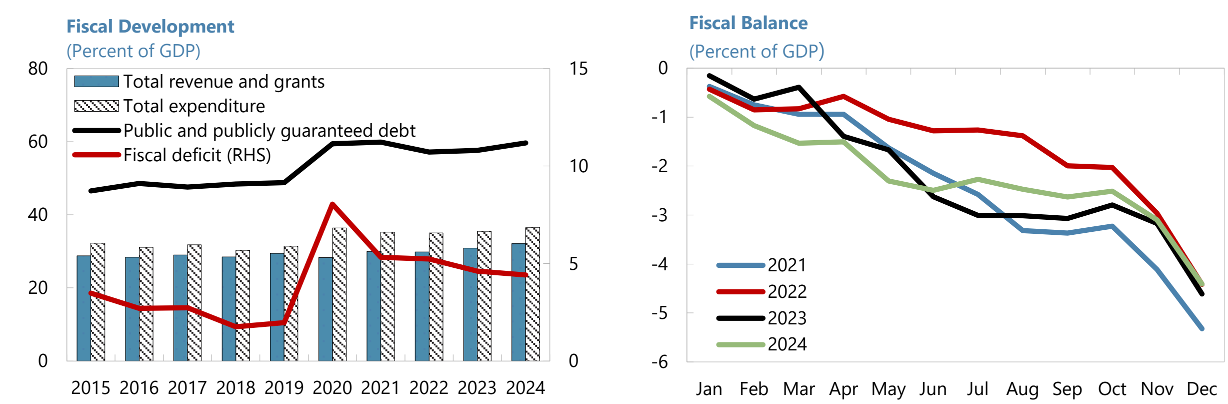


Sources: Haver Analytics and IMF staff calculations.

Sources: Eurostat, Haver Analytics, and IMF staff calculations.

6. The planned fiscal consolidation in 2024 was interrupted after elections. In August, the new government adopted a supplementary budget for 2024, increasing the deficit target to 4.7 percent (from 3.4 percent in the original budget guided by the PLL). Of the spending increases, 0.3 percent of GDP were commitments by the previous government, 0.4 percent of GDP was for existing wage agreements, while 1.1 percent of GDP was spending by the new government on pensions and municipalities, and transfers to industrial zones and the agriculture sector. A new pension law replaced indexation with an ad-hoc 20 percent increase of the monthly average pension. End-year data suggest that tax revenues and contributions, on account of strong wage and profit growth and improved administration efforts, met budget projections; current spending was in line with the supplementary budget while capital spending was under-executed, resulting in a budget deficit of 4.4 percent of GDP for 2024. Public debt is on an upward trend, reaching 63 percent of GDP by end-2024. North Macedonia's fiscal rules include a limit on the budget deficit of 3 percent of GDP and a limit on general government debt of 60 percent of GDP, requiring the government to commit to a 5-year corrective plan when these limits are breached.

Text Figure 3. North Macedonia: Fiscal Developments



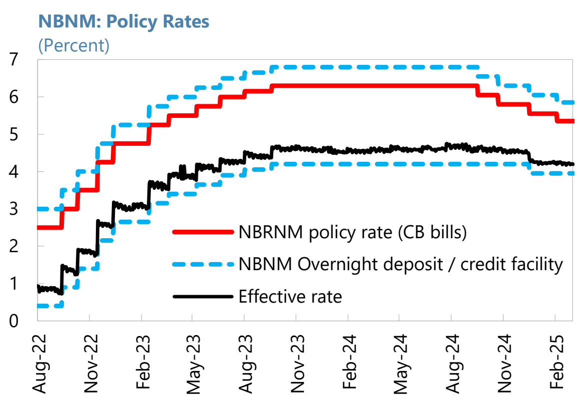
Sources: Ministry of Finance and IMF staff calculations.

Sources: Ministry of Finance and IMF staff calculations.

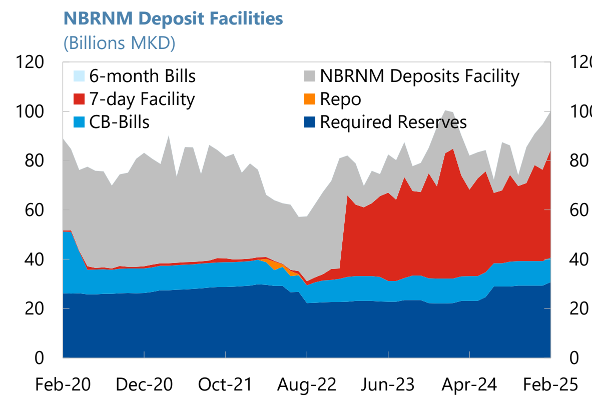
7. The current account recorded a deficit of 2.3 percent of GDP in 2024. Following an exceptional surplus in 2023, the external balance weakened due to deterioration in the goods balance and moderating transfers, while services continued to perform strongly (Figure 1). Ongoing structural shifts in the European automotive sector contributed to weak export performance. Exports to Germany accounts for two-fifths of total exports and declined by 15.5 percent annually (21.3 percent in Q4). The widening current account deficit was financed by FDI and government-related inflows, supporting reserve accumulation. The government secured a loan of €1 billion from Hungary EXIM Bank, half of which was used for the €500 million Eurobond redemption in January 2025, €250 million for municipality investments, and €250 million for supporting private sector credit.

8. **The National Bank of the Republic of North Macedonia (NBRNM) has begun easing monetary policy.** Since September 2024, following the ECB with a lag, the NBRNM has cut the reference CB bills rate four times to 5.35 percent, while reducing deposit rates once to 3.95 percent–4.0 percent, aiming to increase corridor symmetry. Effective rates, which follow closely the deposit rates, at which most of the liquidity is absorbed, have also declined slightly. While the nominal and real spread between the NBRNM's policy rate and the ECB's have widened (Figure 2), the foreign exchange market has remained stable, in the context of robust reserves accumulation, mostly on account of government transactions, and strong private inflows (FDI and remittances).

Text Figure 4. North Macedonia: Monetary Developments

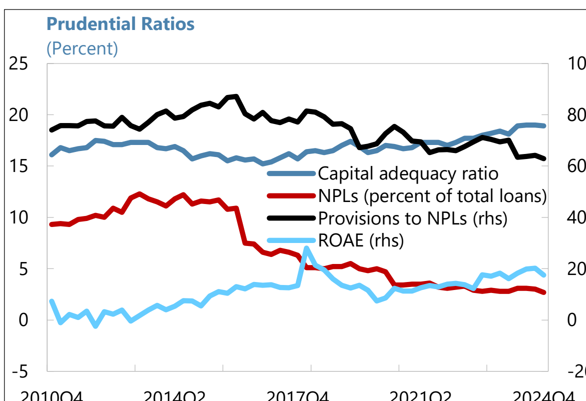


Source: Haver Analytics and IMF staff calculations.



Sources: Haver Analytics and IMF staff calculations.

9. **The financial system remains resilient, but risks are increasing.** The banking sector remains well-capitalized, liquid, and profitable, with the capital adequacy ratio (CAR) reaching 18.9 percent and the liquidity coverage ratio (LCR) at 289.4 percent as of Q4 2024—well above regulatory minima. Profitability is also at record levels, while system-wide NPLs remain low at 2.6 percent. Credit growth accelerated to 11.5 percent y/y in February 2025, driven by strong corporate lending (14.3 percent y/y) and supported by robust bank balance sheets and an 11.1 percent y/y increase in deposits (Figure 2).



Sources: Haver Analytics and IMF staff calculations.

The acceleration in lending activity has been broad-based and could be further propelled by the subsidized on-lending from proceeds of the Hungarian bilateral loan—the funds are made available through commercial banks for new investments on favorable terms, at a 1.95 percent interest rate, with banks intent on directing them to their highest quality borrowers. Real estate prices increased by 10.5 percent y/y in Q4 2024 in nominal terms, below 2022 peaks, while real growth reached 5.7 percent y/y, a multi-year high.

10. Construction of the Corridor 8 and 10d road project has begun in earnest. The government has streamlined expropriation procedures of private lands which has allowed access to construction sites. However, the delays and redesigns of certain sections of the road are expected to postpone the completion of the project by two years to 2029 and increase the project's total cost by around €300 million, initially estimated at €1.3 billion, reaching 11 percent of GDP.

11. The state electricity generation company, ESM, continues making losses raising the risk of further government support. ESM continues to face financial challenges due to its reliance on low-efficiency electricity generation at high production costs and obligations to supply the regulated market. While no direct subsidies were provided to ESM from the budget in 2024, the company borrowed €82 million (about ½ percent of GDP) from domestic banks, backed by a government guarantee. (See Annex VI).

OUTLOOK AND RISKS

12. Growth is expected to accelerate driven mostly by domestic factors, while external shocks pose significant risks. Growth is envisaged to pick up in 2025 driven by stronger domestic demand. Real wage gains and fiscal support from higher public wages and pensions will support private consumption. Resumed construction of Corridor 8/10d and other public investment projects are expected to drive an acceleration of investment which will also be a key contributor to growth. Headwinds from a weak European growth outlook due to trade and political uncertainty will weigh on exports and private investment, weakening the pickup in output growth. Going forward, continued strength in private consumption and investment growth are expected to drive growth above potential and close the output gap by 2028. Medium-term growth has been revised down to 3.0 percent, on account of unfavorable population dynamics and in line with weak trend growth over the past decade (See SIP).

13. Inflation risks have increased, and the pace of disinflation is expected to remain slow. High inflation in early 2025 will result in relatively unchanged inflation for the year of around 3.4 percent compared to 2024. Inflation is projected to gradually slow through 2026, helped by low growth of international food prices and easing core inflation driven by subsiding wage growth, and anchored consumer expectations. These factors should allow convergence to the EU target of 2 percent by end 2026. However, risks to the inflation outlook have increased, driven both by domestic factors such as expansionary fiscal policies, buoyant credit conditions and second-round effects, as well as external factors, such as from fragmentation and commodity price volatility.

14. The current account deficit is expected to stabilize at about 2.5 percent of GDP over the medium-term. Under the baseline of moderate current account deficits and steady inflows from the financial account, notably FDI, reserve adequacy will be maintained (ARA about 107 percent). Recent strong performance in ICT and business services is assumed to be structural and likely to be sustained, offsetting a further moderation in transfers, whereas the trade deficit is expected to narrow. North Macedonia has demonstrated the capacity to reverse shock-induced deficits in the past. Nonetheless, the country remains susceptible to external shocks given its dependence on imported energy, high trade openness, concentrated exports, and especially considering the increased trade uncertainty. Based on the EBA-lite methodology, the 2024 external position was stronger than the level implied by medium-term fundamentals and desirable policies (Annex III).

15. Risks are tilted to the downside (Annex I). Delays or under-performance in public investment projects, stalled productivity reforms, emigration, and slowing activity of key trade partners threaten the projected growth path. Continued high real wage growth without corresponding productivity gains, along with fiscal transfers to households, present upside risks to already elevated core inflation and could erode competitiveness. Contingent liabilities, for example further loan guarantees to ESM, and higher-than-expected costs of public investment projects could slow down fiscal consolidation. Intensification of regional conflicts and commodity price volatility could strain the budget and add to inflationary pressures. Trade policy and investment shocks may suppress exports, remittances, and tighten financial conditions, putting pressure on reserves and increasing sovereign risk premia.

Authorities' Views

16. The authorities broadly agreed with staff's assessment of the macroeconomic situation but see more potential upside risks. The authorities agreed that growth will pick up into 2025 supported by continued FDI growth, expansion of credit to firms including through the Development Bank, and increased public investment, stemming from both an intensification of the implementation of existing projects and new investments in municipalities. Inflation is expected to decline with the implementation of temporary administrative price measures along with the law on unfair trade practices. Core inflation is expected to decline as slower wage growth and passthrough of food and energy prices dissipate. Structural reforms are expected to play a key role in supporting medium-term competitiveness and income convergence.

17. The authorities project the current account to be stronger in the medium-term, though generally concurred with staff's external sector assessment. The authorities expect the current account to converge towards 2.2 percent of GDP on average, supported by faster improvement in the trade balance as external demand recovers. The authorities shared staff's assessment on North Macedonia's susceptibility to shocks, especially in light of the increased trade uncertainty, and the need to preserve domestic shock absorption capacity through appropriately tight monetary and fiscal policies.

POLICY DISCUSSIONS

A. Fiscal Policy

18. Staff support the authorities' goal of reducing the deficit in 2025, which is also appropriate from a cyclical perspective, but are concerned revenue will underperform, rendering this goal out of reach. The new government's Medium-Term Fiscal Strategy (MTFS) adopted in October 2024 targets a fiscal deficit of 4 percent of GDP in 2025 and reaching a fiscal rule consistent deficit of 3 percent by 2027. A tighter stance in the 2025 budget is important to rein in domestic demand, given the narrowing output gap and persistent core inflation. However, the 2025 budget deviates from the MTFS by including an increase in spending by 1.2 percent of GDP over 2024 (0.8 percent is due to the new pension law). Nonetheless, the government still maintains a deficit target of 4 percent of GDP for 2025, assuming a 1.5 percent of GDP increase in tax revenues from reducing the shadow economy and improvements in tax administration. While welcoming the Public Revenue Office's (PRO's) efforts to modernize tax collection, staff caution that gains will take time to realize. Staff's more conservative revenue assumption points to a deficit of 5.0 percent of GDP in 2025. The budget also assumes increased non-tax revenues and grants in 2025, reflecting additional profits from the National Bank and the government's ongoing effort to include more complete information about spending agencies' own revenues and associated spendings in the budget—such use of own revenues is expected to remain deficit neutral. To mitigate the risks of revenue shortfalls and further worsening of the deficit, staff recommend that, in any planned supplementary budget, the authorities reduce tax expenditures and transfers (e.g., through reversing transfers to municipalities, farmers and industrial zones introduced post-election) and avoid increasing spending by freezing further wage and pension increases.

19. The level of the deficit and public debt are expected to remain above the government's targets in the medium term, heightening financing risks in the absence of a credible adjustment plan. Staff's baseline projection is based on a deficit of 5 percent of GDP in 2025 and the envisaged pace of consolidation (0.5 percent of GDP each year) in the MTFS after 2026. Given the expected slippage in 2025 relative to the budget target, the fiscal path in the MTFS as required by the fiscal rules is no longer attainable: The fiscal deficit will exceed 3 percent of GDP until 2029 in the baseline, while public debt is projected to rise and stabilize in 2030 at 64.2 percent, above the government's target.[1] The Sovereign Risk and Debt Sustainability Framework (SRDSF) points to moderate risks of debt distress, with a moderate overall risk (Annex II). Gross financing needs (GFN) remain considerable, averaging around 15 percent of GDP over 2025–30, but should be met by a mix of domestic appetite for government securities and access to international markets. External financing is also available under the recently approved EU Reform and Growth Facility, subject to delivery on the agreed policy commitments. The €50 million tranche under the MFA has

[1] In the MTFS and Medium Term Debt Strategy, the government's medium term debt targets effectively cover the public and guaranteed and non-guaranteed debt of SOEs, wider than the fiscal rule perimeter (general government debt).

been postponed. The government's ability to tap international markets at favorable interest rates requires a credible commitment to consolidation under the fiscal rules.

20. Staff urge the government to adopt concrete measures to achieve the MTFS targets and maintain credibility. There are significant implementation risks in reaching the baseline projections as the MTFS lacks concrete measures to underpin the expenditure reductions and underestimates the pension transition costs (only the tax administration reforms by the PRO are being implemented)—which the Fiscal Council also points to, along with risks of overly optimistic revenue assumptions and high levels of spending. Moreover, additional adjustments in 2026–27 are needed to maintain a deficit target of 3 percent in 2027 given the slippage in 2025, requiring significant additional consolidation efforts (see ¶18 and Text Table 1). Therefore, during 2026–27, it is paramount to adopt concrete consolidation measures to rein in pension and wage growth (e.g., through limiting adjustments below inflation), reduce subsidies and transfers, further rationalize tax expenditures, and improve revenue administration. The costs of inaction and backloading consolidation efforts are high given the economy is susceptible to shocks especially amidst elevated global uncertainty.

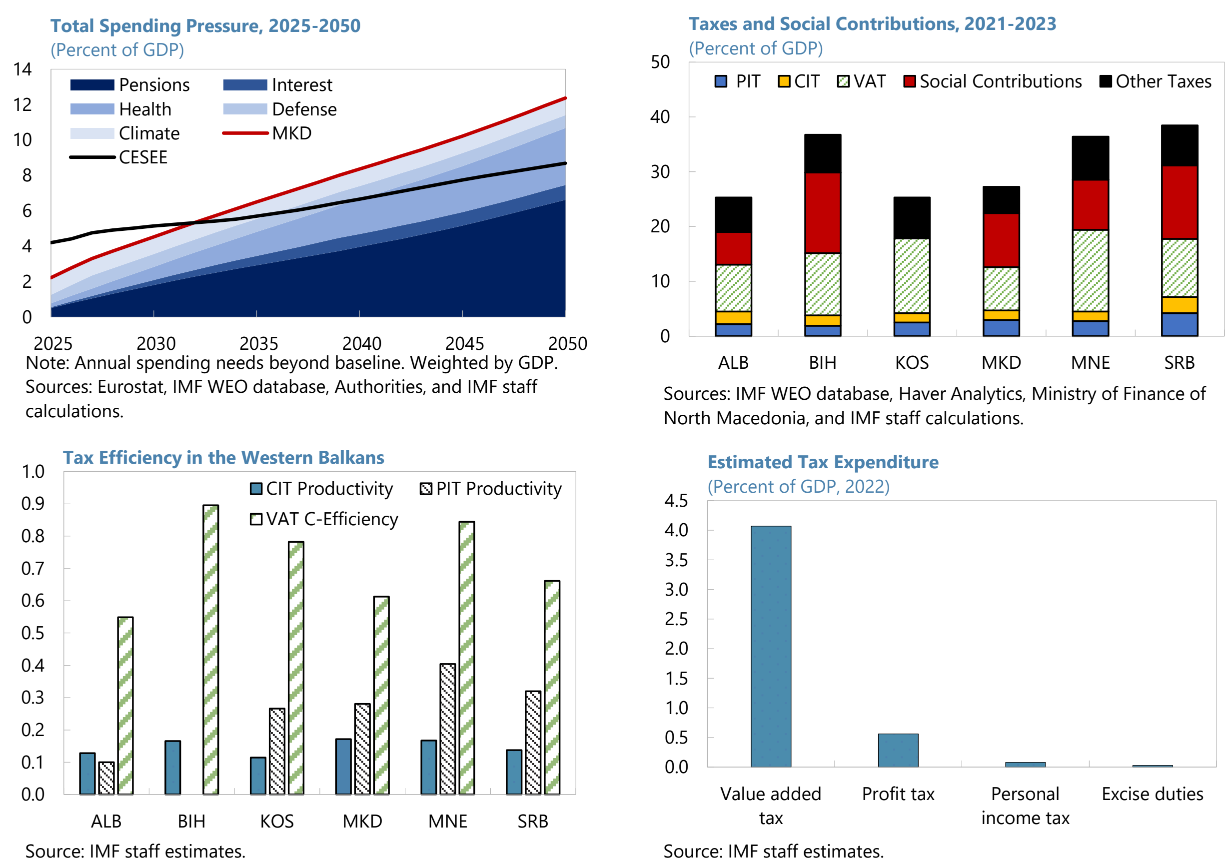
Text Table 1. North Macedonia: Staff's Recommended Fiscal Adjustment Measures

(Percent of GDP)

	2025	2026	2027	2028	2029
Fiscal targets in MTFS					
Budget balance	-4.0	-3.5	-3.0	-3.0	-2.8
Public and publicly guaranteed debt	65.2	63.4	62.5	60.4	59.0
Baseline (based on 2025 budget and MTFS)					
Budget balance	-5.0	-4.5	-4.0	-3.5	-3.0
Public and publicly guaranteed debt	61.2	62.7	63.5	64.2	64.3
Recommended path (to reach a deficit of 3 percent in 2027)					
Budget balance	-4.8	-3.8	-3.0	-2.4	-1.9
Public and publicly guaranteed debt	61.0	61.8	61.7	60.6	59.6
Recommended concrete measures (to support both the MTFS and additional adjustment) and expected impacts					
Revenues					
Tax admin reform (existing measures; including reducing informal economy)		0.2	0.2		
Rationalize VAT tax expenditure		0.2	0.2		
Expenditure					
Reverse transfer increases that occurred in 2024 and 2025	0.2	0.1			
Limit nominal wage increases to inflation (2026–27)		0.3	0.2		
Suspend pension indexation adjustment in 2025; limit pension increases to inflation during 2026–27		0.2	0.2		
Total (to bring deficit from 5 percent in 2025 to 3 percent in 2027)	0.2	1.0	0.8		

21. Further revenue mobilization is crucial for creating the fiscal space for North Macedonia's development needs and would contribute positively to fiscal consolidation. Tax revenue, particularly VAT, at 17.6 percent of GDP in 2023, is among the lowest in the region falling short of the 22–24 percent of GDP estimated tax potential (Text Figure 5). Tax reforms should focus on reducing tax expenditures, estimated at 4.75 percent of GDP in 2022 due to reliefs, reduced rates, and exemptions, while gradually increasing property tax—it is estimated that a gain of 0.5 percent of GDP over several years is feasible, which also requires a reliable cadaster record. With the shadow economy at around 30 percent of GDP, tax administration reforms, including digitalization, i.e., implementing an Integrated Tax Information System and e-invoicing, could significantly reduce informality. However, staff caution that gains will take time to realize, requiring a holistic approach and with close coordination by all branches of government (Annex VII). Other gains can be realized through better arrears management and improved tax compliance among large corporations, as well as policies that support the green transition (e.g., a carbon tax to prepare for the EU-CBAM) and address vertical equity (e.g., increasing progressivity of labor taxation).

Text Figure 5. North Macedonia: Spending Pressure and Tax Performance



22. In the medium term, the composition of budget spending should shift from a focus on current spending, while upgrading public financial management. North Macedonia's budget disproportionately allocates to current spending (dominated by wage and pension spending), limiting fiscal space for investment which is significantly below peers (Text Figure 6). Low investment, along with weak public investment management, has resulted in a lower public capital stock and infrastructure quality compared to other countries in the region. Staff urge the authorities to rein in wage and pension growth, strengthen public financial management, mitigate electricity sector risks through reforms of ESM and focus on renewable energy:

- *Government wages.* Fragmented wage negotiations, with sectors bypassing the General Collective Agreement, put pressure on the annual budget. A unified public sector wage-setting mechanism under the Ministry of Finance is essential for sustainable government wage increases aligned with the fiscal strategy.

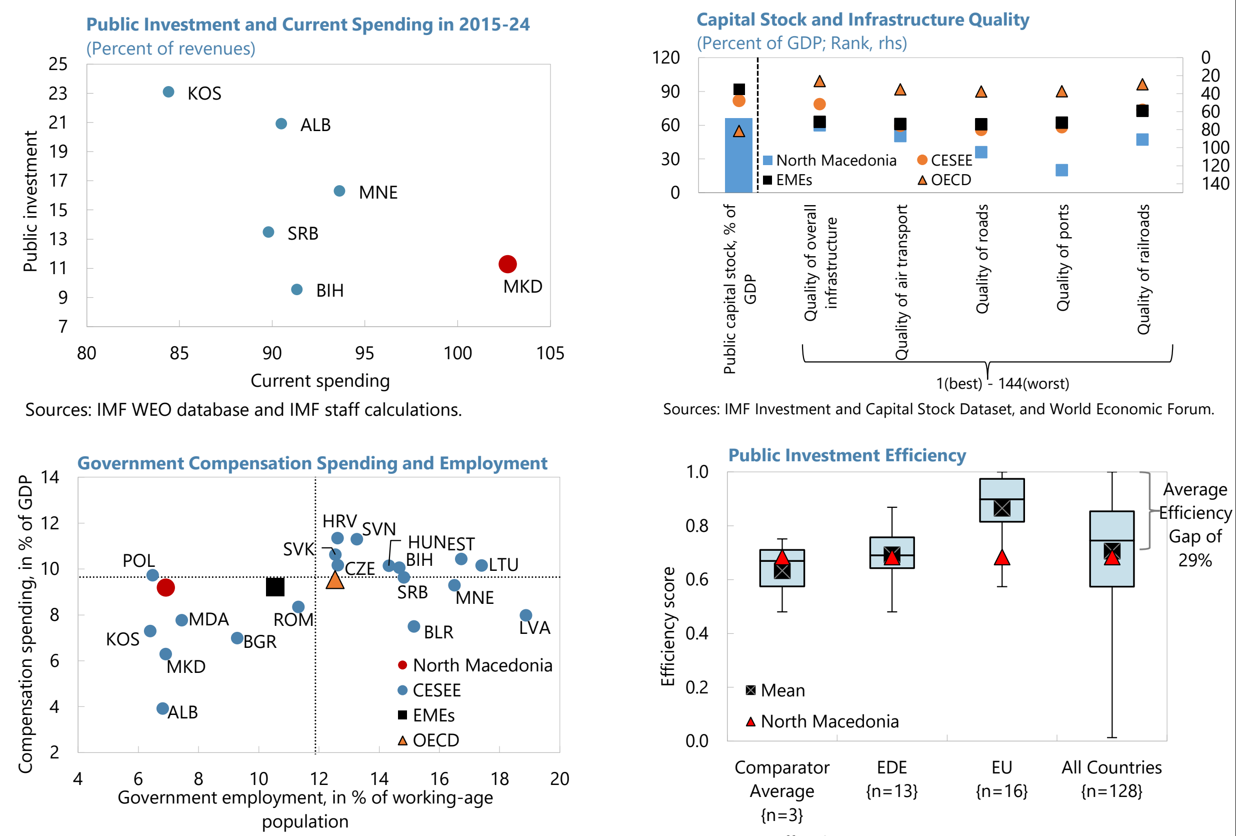
- *Pensions.* Frequent ad-hoc pension increases threaten long term sustainability, weaken the contribution-benefit link, and discourage system participation. Staff advise a rule-based system for pension adjustments (indexed only to inflation, rather than wages and inflation, given the already generous system) after partially offsetting the impact of the recent 25 percent benefit hike (an indexation below inflation in 2026 is justified) and urge the government to consider parametric reforms to ensure long term sustainability given demographic and migration trends (See Annex VIII). Ensuring the full and timely transfer of contributions to the second-pillar pension system is essential to maintain the integrity of the current pension system.

- *PFM reforms.* Staff encourage the authorities to accelerate the evaluation of investment projects by the newly established PIM unit and adopt the draft PPP law. Staff welcome the acceleration in Corridor 8/10d construction and urge continued improvements in project management and implementation. The government should start spending review pilots to optimize budget allocation. It is important to establish a fiscal risk register, update the SOE Health Check Tool, strengthen institutional arrangements, and improve fiscal risk disclosure.

- *ESM efficiency*. Guided by the PLL, the government increased household electricity prices in 2024 and January 2025. Despite this, ESM continues to face financial losses due to rising costs and its continued supplies of energy to the regulated market. The new management of ESM has outlined ambitious plans to reduce costs and increase energy generation, aiming at higher sales in the free market to offset losses incurred from the regulated market. Staff agree that ESM needs efficiency improvements through enhanced management, regular maintenance and technology upgrades, and robust supervision by the government (See Annex VI). There are risks in achieving the production expansion goals and the government should be mindful of a continued need for financial support. Reducing recognized distribution losses currently covered by ESM could also provide room for further price increases while limiting passthrough to end-consumers’ bills and would strengthen the company’s financial position.

- *Renewable energy*. While transitioning to renewable energy will involve high upfront costs, the lower production costs relative to ESM’s outdated technology are expected to lead to more efficient electricity generation over time. ESM has signed two new loans to invest in the expansion of a wind park and the development of new photovoltaic (PV) plants, with additional projects currently in the pipeline. Nevertheless, more substantial efforts and investments in new renewable generation capacities will be necessary to compensate for the declining and inefficient generation from outdated lignite based power plants.

Text Figure 6. North Macedonia: Government Spending



Sources: IMF WEO database and IMF staff calculations.

Sources: IMF Investment and Capital Stock Dataset, and World Economic Forum.

Source: IMF staff estimates.

Source: IMF staff estimates.

Authorities' Views

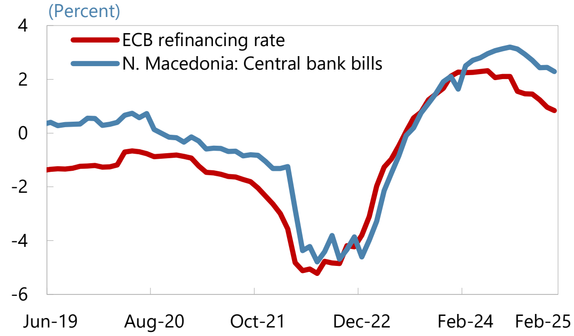
23. The authorities reiterated their commitment to fiscal consolidation to comply with the fiscal rules. They broadly share the same views as staff but acknowledged that 2025 is a difficult year for consolidation given municipal elections—in particular, no tax increases or reduction in VAT exemptions can be considered. Nonetheless, they are committed to respecting the 4 percent deficit target. If revenues collection falls short, they are planning to cut spending by better enforcing the criteria for social transfers and subsides and rationalizing the capital budget including by not providing advance payments. A new MTFS is going to be prepared in April with more concrete measures to achieve the fiscal rule targets.

24. The government is keen on revenue mobilization and strengthening expenditure management post elections. The PRO is implementing its Strategic Plan for 2025–27 aiming at making tax administration more efficient and increasing revenues. They stressed early gains from the PRO combatting the shadow economy, e.g., with e-invoices and enforcement measures. They acknowledged the need for tighter control of the wage negotiations to ensure fiscal affordability, and are considering cheaper options for pension indexation. They are confident that ESM is able to improve its production efficiency, while acknowledging risks in achieving its production targets.

B. Monetary and Financial Sector Policies

25. The monetary stance has eased slightly, but the transmission to retail rates has been swift. The real ex-ante policy rate has declined to 2.45 percent in January, while rising inflation has driven ex-post rates down sharply to 0.64 percent. Given abundant liquidity in the banking system and robust bank balance sheets, interest rate passthrough to retail lending rates has been stronger than in the past, with rates on new loans for both households and businesses falling by 40 to 80 bps over the past six months.

Real Policy Rate[1]
(Percent)



1/ Deflated by expected inflation in the next 12 months.
Sources: NBRNM; ECB; Consensus Forecast; and IMF staff calculations.

26. The central bank should keep interest rates on hold until inflation steadily declines, while further tightening reserve requirements and being ready to raise rates if inflationary risks materialize. With the renewed acceleration in both headline and core inflation, the NBRNM should remain on hold until there is firm evidence of sustained disinflation. Given the widening inflation differential relative to the euro area, the NBRNM can maintain higher interest rates within the de facto peg framework while satisfying the real UIP condition and avoiding pressure on the exchange rate. However, further increasing reserve requirements is needed as it is the most effective tool to tighten financial conditions in the context of abundant liquidity. The NBRNM should remain vigilant to inflationary risks from domestic factors, including wage and pension increases, as well as heightened external risks. If these risks materialize, the NBRNM should be prepared to tighten rates to prevent inflation from becoming entrenched.

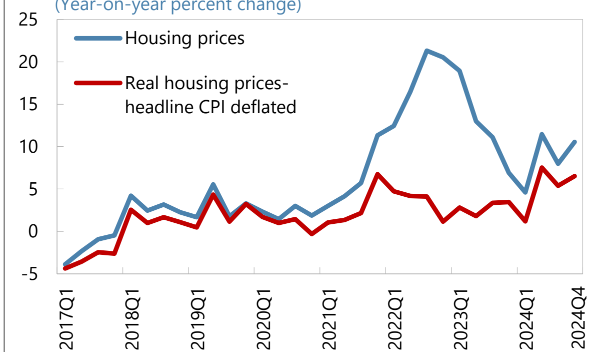
27. The NBRNM should continue upgrading the monetary operations framework to strengthen monetary transmission. The NBRNM has been working internally on transition scenarios to enhance its operational framework. The differentiated pace of easing of the reference Central Bank bills rate versus deposit rates has reduced the asymmetry in the interest rate corridor. If market conditions are favorable, the NBRNM should continue its careful transition towards modernizing the framework. This includes adopting a new main instrument with a 7-day maturity and a symmetric interest rate corridor to anchor the short-term money market rate. Such a framework would enhance monetary transmission and foster deeper market intermediation in denars.

28. While the NBRNM maintains a strong safeguards framework in place, its functional and financial autonomy needs to be preserved. All recommendations from the 2023 Safeguards Assessment of the NBRNM have been implemented. Transparency and accountability mechanisms remain strong, while risk management and cybersecurity were strengthened with IMF technical assistance. However, the January 2025 amendments to the National Bank Law now tie profit retention to a static core capital level instead of dynamic monetary liabilities, reversing recommendations of the 2023 Safeguard Assessment. Passed without consultation with the NBRNM, the amendments significantly slow the strengthening of own fund buffers, and weaken the NBRNM's financial autonomy, thereby undermining its ability to respond to financial shocks. Realigning the profit retention mechanism with the Safeguards Assessment recommendations is needed to preserve the central bank's policy autonomy. While excluding NBRNM employees from scope of the draft Law on Administrative Servants is a positive step for the NBRNM's functional autonomy, no explicit exclusion from the draft Law on Public Sector Employees raises concerns about potential impairment of its functional autonomy.

29. The NBRNM's macroprudential mandate and resolution powers have been strengthened, and macroprudential policies have been tightened to bolster financial stability. The NBRNM's macroprudential mandate was strengthened in March 2024 with amendments to the Law on the National Bank, granting it the formal macroprudential and bank resolution mandates. In July 2024, the NBRNM raised reserve requirements on short-term denar deposits by 3 percentage points to 8 percent, narrowing the gap with the 21 percent required on FX deposits. Additionally, the NBRNM continued to implement increases in the counter-cyclical capital buffer (CCyB) to 1.75 percent from August 2025. From 2026, the NBRNM will introduce a minimum requirement for own funds and eligible liabilities to ensure banks maintain adequate loss-absorbing and recapitalization capacity, similar to EU regulations.

30. Macroprudential settings may need further tightening if brisk lending growth and robust real estate developments continue. The residential real estate market, particularly in the capital Skopje, has experienced significant growth, driven by the sector's role as the primary asset for households in a country where homeownership rates are high at 85 percent. Given that real estate accounts for 70 percent of private sector credit and serves as key collateral across lending segments, including a significant share of loans secured by commercial real estate, the exposure of the banking system to risks stemming from real estate is high. While the NBRNM's macro stress test indicated resilience to potential shocks from a real estate market correction, ongoing monitoring of both residential and commercial real estate markets is essential. Borrower-based tools were introduced in 2023, establishing a loan-to-value (LTV) a cap of 85 percent and debt-service-to-income (DSTI) limits of 55 percent for denars loan and 50 percent for FX loans. Subsequent amendments tightened eligibility criteria, including stricter qualification requirements for borrowers. If lending and property prices continue to rise sharply, the NBRNM should be prepared to further tighten borrower-based measures.

Housing Prices
(Year-on-year percent change)



Sources: Haver Analytics and IMF staff calculations.

31. Progress on key legislative reforms to align North Macedonia's financial framework with EU standards must continue. The NBRNM has adopted a comprehensive package of twelve by-laws derived from the Bank Resolution Law, which transposes EU standards and will take effect in October 2025. A new Deposit Insurance Law, designed to establish a clear transition path to EU standards, has been delayed but is expected to be submitted to parliament and enacted before the Bank Resolution Law takes effect. While progress has been made on establishing the resolution fund— with banks' contributions set to begin in October—delays in setting up the deposit insurance fund and the institution to manage it pose operational risks for meeting the October 2026 deadline. Additionally, amendments to the Law on the National Bank are underway to align with the new Law on Financial Instruments, which will take effect in September 2025.

32. Strengthening the AML/CFT framework requires sustained effort. North Macedonia recently completed an assessment of the money laundering and terrorist financing (ML/TF) risks of legal entities and is now updating its broader assessment of the ML/TF risks that the country faces. Amendments to the Law on Prevention of Money Laundering and Financing of Terrorism aimed at addressing the shortcomings identified in the 2023 MONEYVAL Evaluation Report of North Macedonia were adopted in October 2024. These amendments also brought the AML/CFT legislation in line with the EU framework, thus allowing North Macedonia to join the Single Euro Payment Area (SEPA) in March 2025. The authorities are also in the process of preparing the National AML/CFT National Strategy for 2025–28. North Macedonia should continue its efforts to improve its track record in pursuing organized crime, financial crime and related ML cases and recovering criminal assets, in line with the main risks identified in the MONEYVAL report.

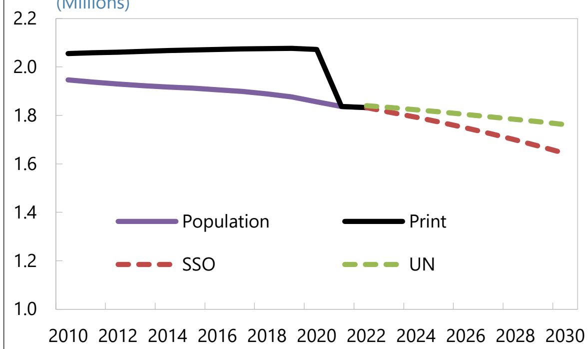
Authorities' Views

33. The authorities remain vigilant about inflation risks and are prepared to adjust policies to maintain monetary and financial stability. They acknowledged the need to remain alert to inflation risks stemming from domestic demand pressures—driven by wage dynamics and strong credit growth—as well as uncertainty in the global outlook. Largely aligned with staff advice, the central bank is considering further tightening reserve requirements to absorb excess liquidity. They confirmed their flexibility to deviate from ECB policy if necessary. The financial system was assessed as resilient, with banks operating more conservatively than required by regulatory standards. Macroprudential measures are considered to have effectively curtailed excessive indebtedness and authorities continue to evaluate their impact, remaining open to recalibrating tools.

C. Structural Reforms

34. Emigration poses a significant challenge to the economic outlook, draining resources and hindering medium-term growth. The 2021 census revealed a significantly lower than previously reported level of population, by around 11 percent from the reported 2020 population, primarily due to higher-than-expected emigration over the past two decades. Migration in North Macedonia has primarily been driven by employment opportunities in the euro area, where wages are significantly higher. This trend disproportionately affects young individuals, leading to a "youth drain."[2] According to the UN World Population Prospects (2024 Revision) and the State Statistics Office of the Republic of North Macedonia (SSO), the population is projected to decline by between 3.8 and 9.3 percent by 2030 under different scenarios, largely driven by ongoing high emigration rates. Additionally, staff analysis shows that reduction to migration barriers stemming from further EU integration would exacerbate net emigration and lower potential output. Productivity growth, driven by structural reforms, can offset negative impacts of further EU integration by leading to sustained wage growth, without loss of competitiveness, and incentivizing firms to hire, encouraging entry of inactive workers in the labor market, lowering the unemployment rate, and increasing immigration (See SIP).

Population and Population Projections
(Millions)

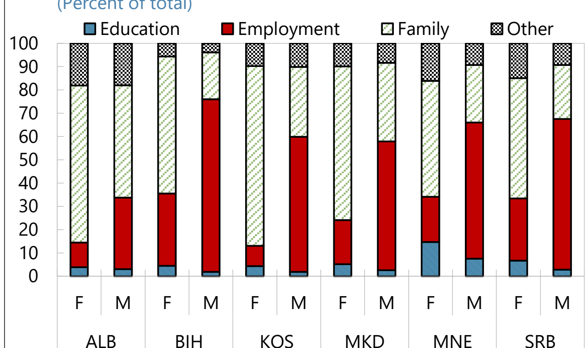


Sources: UN 2024 World Population Prospects; SSO; World Bank.

35. A robust structural reform agenda is necessary to help offset the costs of emigration and boost productivity, reigniting income convergence with the EU. The government secured a strong popular mandate in the 2024 elections and should use its political capital to serve as an agent for change. The National Development Strategy (NDS) and the Reform Agenda supported by the EU provide a roadmap for supply-side and governance reforms that should be accelerated. Public support for reform implementation could be further enhanced through a consultative process, reform sequencing, and tangible near-term deliverables that signal reform commitment. The reform priorities should include:

- *Strengthening the labor market*. Improving labor market outcomes can stimulate private investment, increase labor participation, and reduce emigration. Raising educational quality and job matching between firms and unemployed workers through vocational training and informal learning will help address labor shortages. Expanding affordable childcare in municipalities, aligning paternity leave policies, improving access to flexible work,

EU-27 First Residence Permits by Reason and Gender, 2023
(Percent of total)



Sources: Eurostat and IMF staff calculations.

[2] Emigration has also been linked with a drain on entrepreneurial talents. See, Li and Gade, "Emigration, Business Dynamics, and Firm Heterogeneity in North Macedonia", IMF Working Paper No. WP/2023/268.

and gradually raising the retirement age of women to match men can help to offset workforce losses from high emigration.

- *Improving the business environment*. Reducing informality through streamlined business registrations and expanded digital public services is a priority. The predictability of the legal and regulatory environment can be improved by limiting the use of expedited procedures in Parliament, increasing stakeholder consultation, and applying the regulatory requirements more consistently. Simplifying and digitalizing work permits would help businesses address skill and labor shortages more efficiently. Avoiding ad-hoc adjustments to the minimum wage will help contain inflation, preserve competitiveness and provide a more predictable policy environment for business.

- *Boosting public infrastructure investment*. Completing ongoing major infrastructure projects, notably the Corridor 8/10d and the Kicevo-Ohrid highways that are over budget and behind schedule, would help close infrastructure gaps and realize benefits from investments. The perception of quality of public infrastructure in North Macedonia lags peers (Text Figure 6). Capital expenditure should be safeguarded in the budget while strengthening public investment management to prioritize high-impact projects.

- *Electricity sector reforms.* In addition to controlling fiscal risks, the efficient and affordable supply of electricity are crucial for maintaining household welfare and firms' competitiveness. Promoting private sector investments and renewables while improving the efficiency and governance of ESM are key.

- *Strengthening the rule of law and anti-corruption efforts.* Low independence of the judiciary, functioning of the Judicial Council, shortage of qualified prosecutors and judges, and inadequate integrity verification procedures raise concerns over quality and efficiency of the justice system. Improving judicial independence and impartiality would strengthen contract enforcement and help reduce informality. The track record in prosecuting high-level corruption cases should be improved. Aligning the Criminal Code with international standards and enhancing resources for key anti-corruption institutions are crucial.[3] Implementation of the national anti-corruption strategy has been slow, the strategy is set to be updated this year, which provides an opportunity to reset the commitment to anti-corruption agenda, enhance coordination and strategic oversight. The application of the system of sanctions for violation of conflicts of interest, integrity and anti-corruption legislation should be further enhanced and sanctions made more effective.

- *Enhancing governance.* Improving public resource efficiency, accountability, and transparency requires expanding digital public services, reassessing state aid schemes, strengthening

[3] The 2023 Criminal Code amendments resulted in the statutes of limitations expiring for a large number of high-profile corruption cases, raising concerns over the anti-corruption legal framework. The Constitutional Court recently opened the proceedings to assess the constitutionality of the 2023 amendments.

procurement systems, and improving SOE management (including close monitoring of the operations of ESM and updating the SOE Health Check Tool).

Authorities' Views

36. The authorities agreed with the reform priorities. The authorities concur that high emigration is a challenge that will further exacerbate labor shortages and weigh on potential output growth. They noted that continued positive developments in reducing unemployment and increasing labor participation, including new programs supporting young workers, will help meet labor demand, which could be further bolstered by engaging the pool of unemployed. They also highlighted that recently announced FDI projects will help bolster investment and provide high-quality employment. Along with increases in minimum wages, higher wages would help deter emigration. Governance vulnerabilities are well recognized as a constraint on growth. The authorities are cognizant that implementation of the existing anti-corruption strategy has been lagging and will consider mechanisms to enhance strategic oversight and coordination when updating the strategy.

STAFF APPRAISAL

37. The economy is expected to gain momentum, though risks are tilted to the downside. Growth is projected to reach 3.3 percent in 2025, driven by stronger domestic demand as public investment projects, including the Corridor 8/10d road project, intensify and consumption is supported by government transfers and real wage growth. However, inflation has accelerated with high food inflation despite administrative price controls and other interventions. Core inflation remains persistent fueled by strong wage growth. Domestic risks from weak public investment, emigration and stalled productivity reforms are elevated, while the external outlook has become more uncertain due to shocks to external demand from structural shifts in key partners and trade policy tensions. The external position in 2024 was assessed as stronger than the level implied by medium-term fundamentals and desirable policies.

38. A credible fiscal strategy is essential to rebuilding buffers, reducing debt and ensuring compliance with fiscal rules. This is key to maintaining market confidence, ensuring access to international capital, creating room for investment, and enhancing resilience against future shocks. The focus should be on:

- *Controlling current spending:* Further pension increases in September 2025 should be omitted and the authorities should return to a rule-based pension system in 2026—indexing only to inflation—to support consolidation while protecting pensioners' purchasing power. Public wage increases should be limited to inflation in the near term. The authorities should strengthen oversight to ensure public wage increases are consistent with achieving the fiscal rules. Over time, unifying the fragmented wage negotiating system will help prevent unexpected budget pressures.

- *Mobilizing revenues*. Tax reforms should focus on reducing tax expenditures, limiting reduced rates and exemptions, improving tax compliance, and revamping property tax.

39. Structural fiscal reforms are needed to strengthen fiscal governance and improve spending efficiency. Key steps include implementing the Public Investment Management decree and manual, adopting the PPP law, and conducting spending reviews to optimize budget spending. Managing fiscal risks, especially from SOEs and major projects like the Corridor 8/10d road, is crucial. The state-owned electricity generator, ESM, requires investments in technology and efficiency improvements to lower production costs and expand production, while gradually reducing its role in the subsidized, regulated market. Risks to the budget remain if production expansion falls short of the ambitious goal. The operationalization of the Fiscal Council is a positive step and it is encouraged to strengthen its independent assessments.

40. Administrative price controls will not stem long-term food inflation and may create distortions and hinder competition in the sector. Food inflation remained elevated in 2025, despite frequent use of administrative price controls. Future use may delay price increases, quelling short-term inflation, but does not solve underlying structural factors and can lead to large price increases once measures are removed. Additionally, continued reactionary interventions create uncertainty that may deter potential entrants hurting competition. To counter inflation, the authorities should instead focus on tightening fiscal policy and maintaining a tight monetary stance.

41. Policy rates should remain on hold and liquidity measures should be tightened until inflation steadily declines. Given the recent acceleration in both headline and core inflation, the NBRNM should remain on hold until there is clear evidence of sustained disinflation, including in core. At the same time, liquidity conditions should be tightened using tools such as reserve requirements to absorb excess liquidity. The NBRNM must stay alert to inflationary risks from domestic factors, including wage and pension increases, as well as heightened external risks from trade uncertainties. If these risks materialize, the NBRNM should be prepared to tighten rates to prevent inflation from becoming entrenched.

42. Macro prudential settings may need to be tightened to slow credit growth. The implemented loan-to-value and debt service-to-income ratios help safeguard financial stability by reducing pressures in the real estate market and preventing higher levels of indebtedness. Staff support the NBRNM's gradual tightening of the countercyclical capital buffer and additional capital requirements to ensure banks maintain adequate loss-absorbing and recapitalization capacity, in line with EU regulations. Should lending and real estate prices continue growing briskly, further tightening of macroprudential instruments may be warranted.

43. Preserving central bank autonomy is crucial for maintaining price stability, exchange rate stability, and financial stability. The recent amendments to the National Bank law, adopted without prior consultation with the NBRNM, reallocate a larger share of NBRNM profits to the budget and revert the profit retention mechanism to a static core capital number instead of being dynamic, based on monetary liabilities. These changes undermine the previously established risk-based profit retention, which was designed with IMF advice to strengthen the bank's reserves, and risk weakening the financial and policy autonomy, and credibility of the NBRNM.

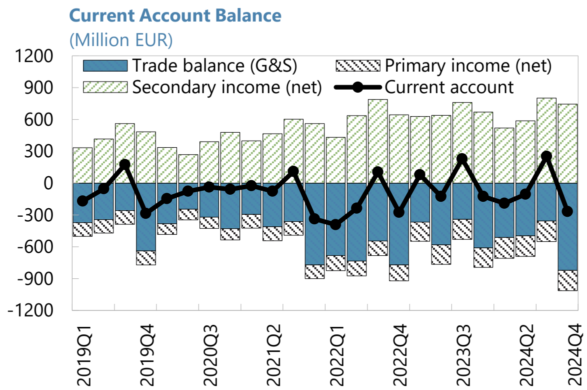
44. Structural reforms are needed to boost productivity, offset the drag from emigration, and advance in the EU accession process. Reducing informality through streamlined business registrations and expanded digital public services is a priority to improving the business environment and supporting productivity growth. Capital expenditures should be safeguarded in the budget and public investment management should be strengthened to prioritize high-impact projects. The ongoing road projects should be completed. Investing in education, incentivizing higher participation, particularly among women, better matching of skills, and simplifying work permit procedures for foreign workers would help address labor shortages. Expanding affordable childcare and gradually raising the retirement age of women would help to offset workforce losses from high emigration. Ad hoc adjustments to minimum wages should be avoided to contain inflation and preserve competitiveness. Public resource efficiency, accountability, and transparency could be improved through increasing digitalization, reassessing state aid schemes, and strengthening procurement systems and management of SOEs.

45. Governance reforms to improve predictability of legal and regulatory environment, functioning of the rule of law, and anti-corruption efforts are crucial. Improving judicial independence and impartiality would strengthen contract enforcement and help reduce informality. The Criminal Code should be aligned with international standards and resource adequacy in key anti-corruption institutions further enhanced. The predictability of the legal and regulatory environment could be improved by limiting the use of expedited procedures in Parliament, increasing stakeholder consultation, and consistently applying regulatory requirements. The upcoming new national anti-corruption strategy is an opportunity to accelerate reforms through stronger accountability and coordination.

46. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

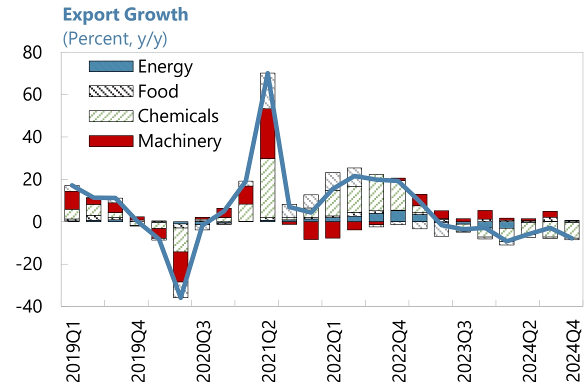
Figure 1. North Macedonia: External Sector Developments

The current account weakened…



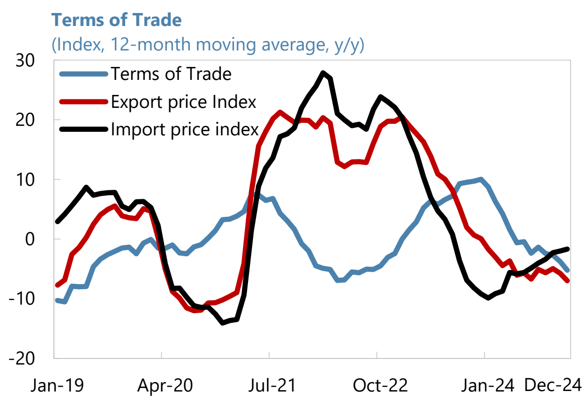
Sources: Haver Analytics and IMF staff calculations.

…due to export deterioration…



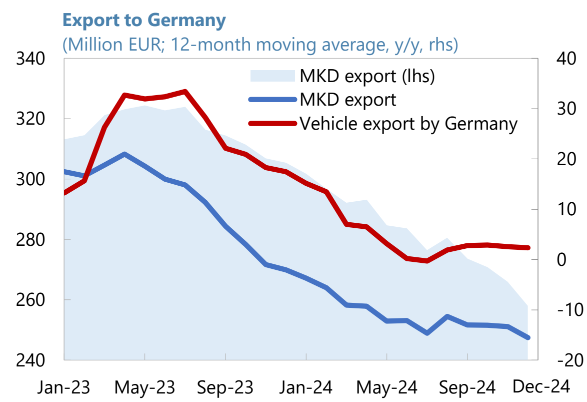
Sources: Haver Analytics and IMF staff calculations.

…amid less favorable terms of trade…



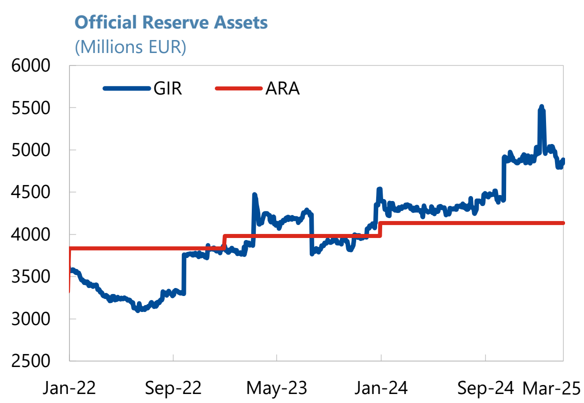
Sources: Haver Analytics and IMF staff calculations.

…and weak trade partner demand.



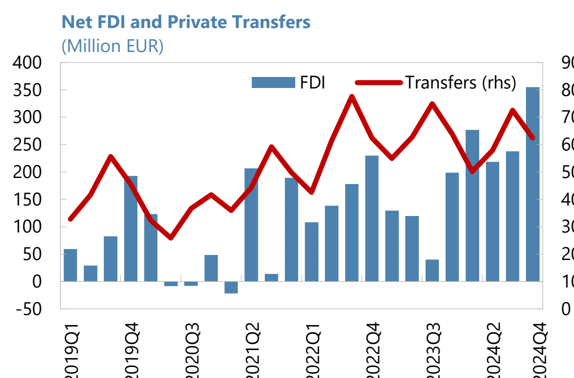
Sources: MakStat database and IMF staff calculations.

Reserves are higher…



Sources: NBRNM and IMF staff calculations.

…supported by robust FDI and transfers.

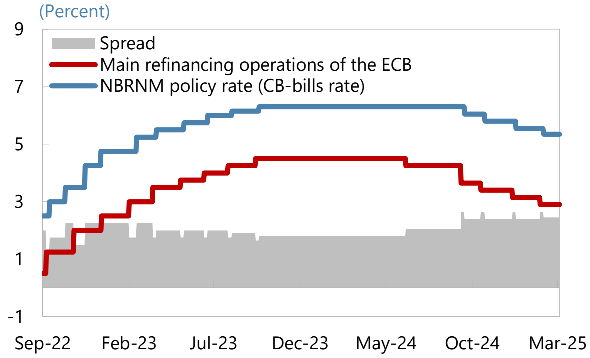


Sources: Haver Analytics and IMF staff calculations.

Figure 2. North Macedonia: Monetary Policy

The reference policy rate has been eased with a slight lag compared to the ECB…

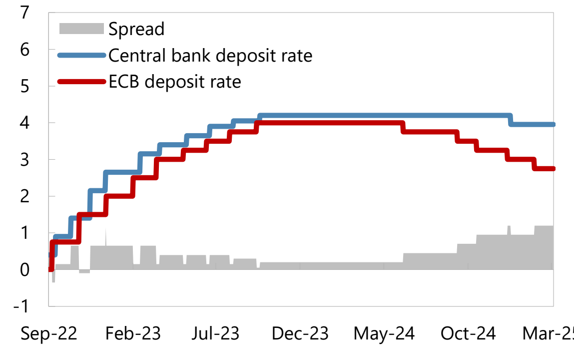
Policy Rates
(Percent)



Sources: NBRNM; ECB; and IMF staff calculations.

…however, the deposit facilities rates have remained constant, leading to wider spreads.

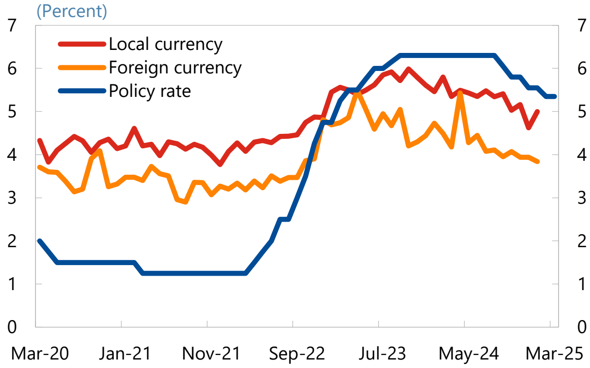
Deposit Facility Rates
(Percent)



Sources: NBRNM; ECB; and IMF staff calculations.

Lending rates remain below the policy rates in the context of excess liquidity…

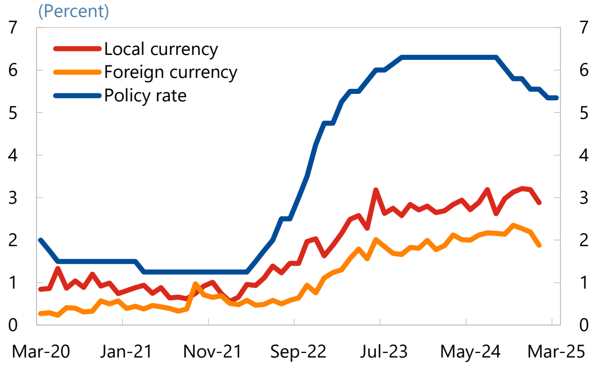
Lending Rates, New Loans
(Percent)



Source: Haver Analytics.

…while deposit rates are attractive, encouraging savings.

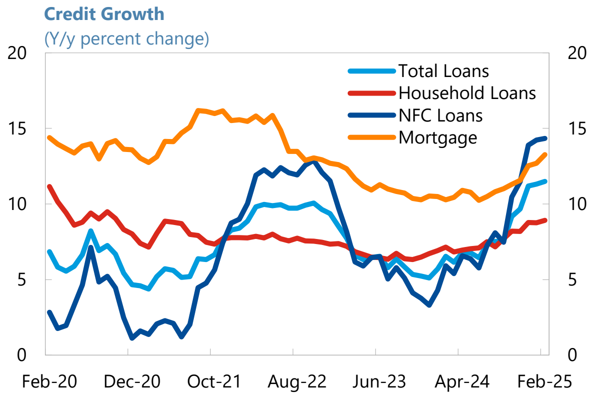
Deposit Rates, New Deposits
(Percent)



Source: Haver Analytics.

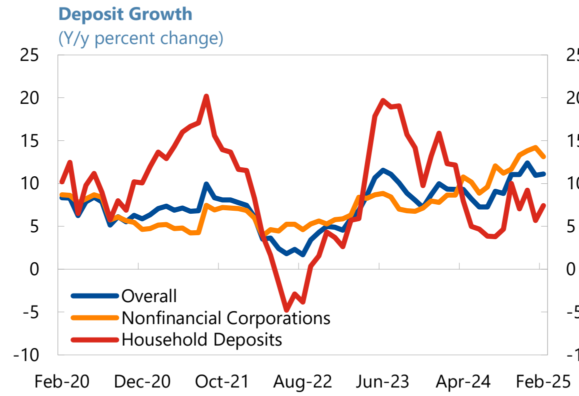
Figure 3. North Macedonia: Financial Developments

Credit growth has picked up at a healthy rate…



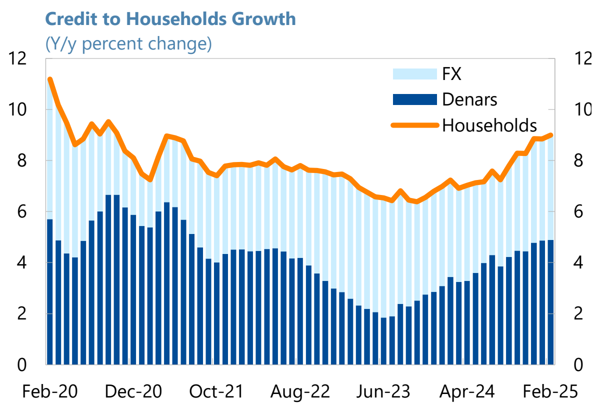
Source: Haver Analytics.

…while deposits have remained strong.



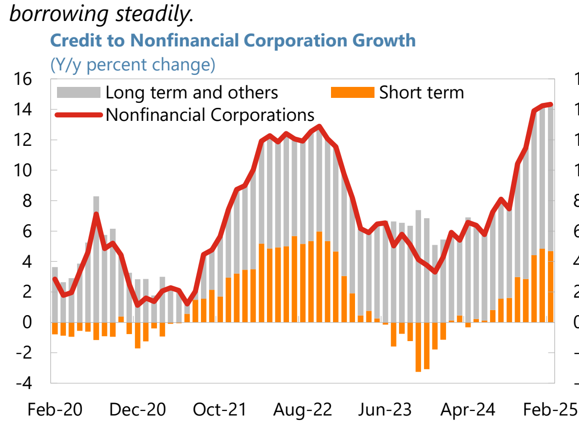
Source: Haver Analytics.

Household credit has been growing, driven by mortgages and consumer loans…



Sources: Haver Analytics and IMF staff calculations.

…while companies have also been increasing their borrowing steadily.

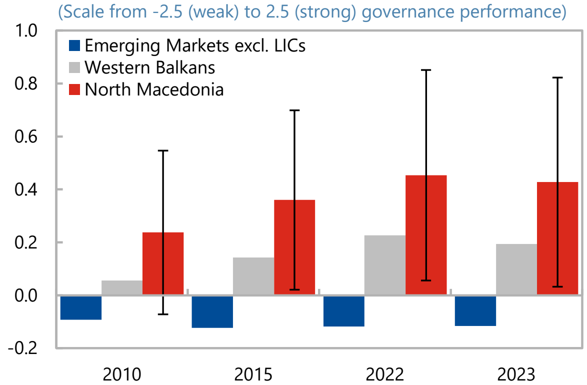


Sources: Haver Analytics and IMF staff calculations.

Figure 4. North Macedonia: Governance

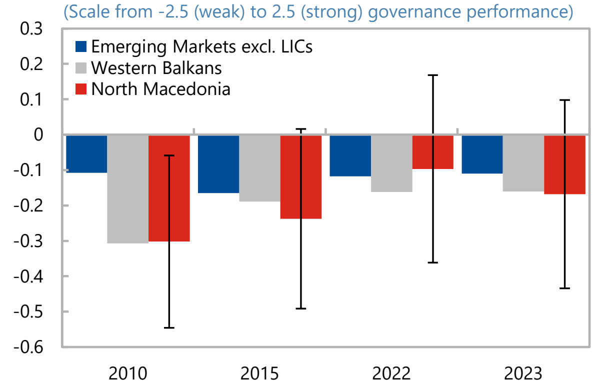
North Macedonia performs relatively well in regulatory quality…

Regulatory Quality
(Scale from -2.5 (weak) to 2.5 (strong) governance performance)



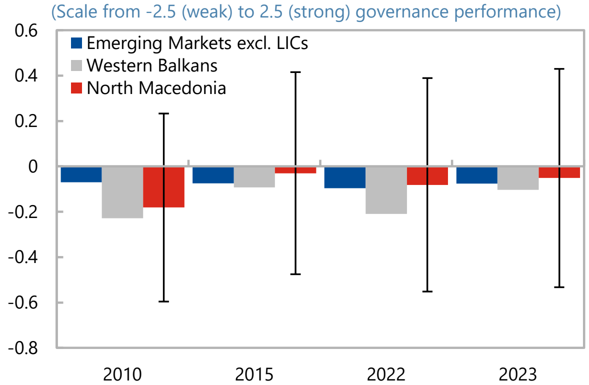
…but its performance in the rule of law has weakened.

Rule of Law
(Scale from -2.5 (weak) to 2.5 (strong) governance performance)



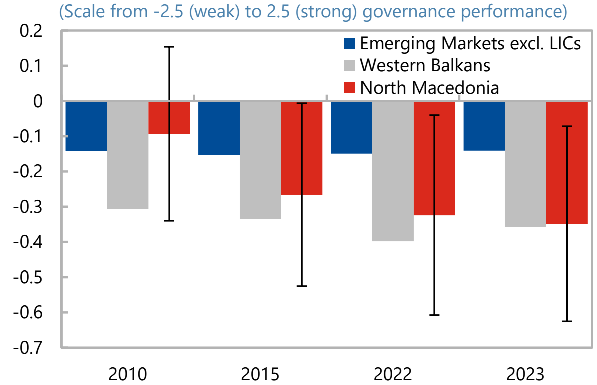
There is scope to increase government effectiveness…

Government Effectiveness
(Scale from -2.5 (weak) to 2.5 (strong) governance performance)



…and to strengthen anti-corruption.

Control of Corruption
(Scale from -2.5 (weak) to 2.5 (strong) governance performance)



Sources: Worldwide Governance Indicators; D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); and IMF staff calculations.
Note: The WGI is a perception-based indicator which aggregates data from more than 30 think tanks, international organizations, nongovernmental organizations, and private firms. The accuracy of perception-based indicators can be biased by experts' views. Non-IMF indicators provide qualitative information about corruption, they do not represent IMF's assessment of the level of corruption. Upper/lower 90 percent confidence band shown on North Macedonia.

Table 1. North Macedonia: Macroeconomic Framework, 2020–30

(Year-on-year percentage change, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
								Projections			
Output											
Real GDP	-4.7	4.5	2.8	2.1	2.8	3.3	3.2	3.2	3.1	3.1	3.0
Domestic demand	-5.3	5.9	5.8	-1.7	4.1	3.8	3.6	3.6	3.5	3.6	3.4
Exports	-10.9	14.3	10.6	-0.6	-3.8	3.2	3.7	3.6	3.8	3.8	3.8
Imports	-10.9	14.8	9.3	-2.1	-0.6	3.9	4.1	4.0	4.1	4.2	4.1
Contributions to growth 1/											
Domestic demand	-7.2	8.1	4.1	0.5	5.0	4.7	4.5	4.5	4.4	4.5	4.3
Net exports	2.5	-3.6	-1.3	1.6	-2.2	-1.4	-1.3	-1.3	-1.3	-1.4	-1.3
Output gap (percent of potential GDP)	-3.3	-1.8	-1.5	-1.5	-0.7	-0.4	-0.3	-0.1	0.0	0.0	0.0
Consumer prices											
Period average	1.2	3.2	14.2	9.4	3.5	3.4	2.2	2.0	2.0	2.0	2.0
End-period	2.3	4.9	18.7	3.6	4.3	2.3	2.0	2.0	2.0	2.0	2.0
Central government operations (percent of GDP)											
Revenues	28.4	30.0	29.8	30.9	32.3	34.1	34.0	34.2	34.4	34.6	34.8
Expenditures	36.4	35.3	35.0	35.5	36.7	39.2	38.5	38.2	37.9	37.6	37.8
Of which: capital expenditures	2.4	3.2	3.5	4.8	3.0	4.9	4.9	5.0	5.0	5.0	5.2
Balance	-8.0	-5.3	-5.2	-4.6	-4.4	-5.0	-4.5	-4.0	-3.5	-3.0	-3.0
Gross general government debt 2/	50.8	52.7	50.4	50.8	54.8	52.9	54.5	55.4	56.1	56.2	56.2
Public and publicly guaranteed debt 2/ 3/	59.4	61.3	58.4	58.7	63.0	61.2	62.7	63.5	64.2	64.3	64.2
Savings and investment (percent of GDP)											
National saving	27.0	29.4	30.0	30.0	26.3	26.8	27.3	27.7	28.0	28.3	28.9
Public	-5.6	-2.1	-1.7	0.2	-1.4	-0.1	0.4	1.0	1.6	2.1	2.3
Private	32.6	31.5	31.7	29.8	27.7	26.9	26.9	26.7	26.4	26.3	26.6
Foreign saving	2.9	2.8	6.1	-0.4	2.3	2.4	2.5	2.5	2.5	2.5	2.5
Gross investment	29.9	32.2	36.0	29.6	28.6	29.3	29.8	30.2	30.5	30.8	31.4
Credit											
Private sector credit growth	4.9	8.0	9.3	5.3	10.3	9.2	8.7	8.1	7.0	6.8	6.6
Balance of payments											
Current account balance (percent of GDP)	-2.9	-2.8	-6.1	0.4	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5
Foreign direct investment (percent of GDP)	1.4	3.3	4.9	3.3	7.1	4.7	4.0	4.0	4.0	4.0	4.0
External debt (percent of GDP)	78.7	80.9	81.5	77.9	79.9	76.7	76.8	76.6	75.6	75.1	74.7
Gross official reserves (millions of euros)	3,360	3,643	3,863	4,538	5,029	4,966	5,214	5,407	5,464	5,555	5,742
in percent of IMF ARA Metric	113	110	101	114	120	111	113	112	110	108	107
in percent of ST debt	102	109	82	100	97	93	101	101	111	110	113
in months of prospective imports	4.2	3.5	3.9	4.7	5.0	4.7	4.7	4.6	4.4	4.3	4.2
Memorandum items:											
Nominal GDP (billions of denars)	669	729	816	898	949	1022	1082	1146	1208	1272	1343
Nominal GDP (millions of euros)	10,852	11,836	13,243	14,583	15,411	16,604	17,583	18,619	19,621	20,668	21,819

Sources: NBRNM; SSO; MOF; World Bank; and IMF staff estimates and projections. National accounts are revised by SSO using ESA 2010.

1/ The inconsistency between real GDP growth and contributions to growth results from discrepancies in the official data on GDP and its components.

2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

3/ Includes general government and non-financial SOEs.

Table 2a. North Macedonia: Central Government Operations, 2020–30

(Billions of Denars)

	2020	2021	2022	2023	2024	2025		2026	2027	2028	2029	2030
						Budget	Proj.	Projections				
Total Revenues	189.6	218.0	243.2	277.1	306.3	358.8	348.7	368.2	392.2	415.7	440.4	467.6
Tax Revenues and Contributions	173.5	196.3	220.2	250.4	283.6	319.2	308.1	328.4	350.0	371.3	393.7	418.3
PIT	18.6	20.6	23.9	27.3	31.9	35.7	34.6	36.7	38.8	40.9	43.1	45.5
CIT	10.5	10.9	15.8	18.8	22.0	23.3	23.8	26.3	29.0	31.7	34.7	38.0
VAT (net)	46.9	58.2	64.8	70.0	81.5	86.7	87.8	94.0	100.7	107.3	114.3	122.1
Excises	22.5	25.5	25.5	26.8	28.7	35.4	30.9	32.8	34.7	36.5	38.5	40.6
Custom Duties	6.7	8.5	10.0	11.2	12.9	16.3	13.9	14.7	15.6	16.4	17.3	18.3
Other Taxes	1.7	2.0	2.7	3.6	1.0	4.8	2.6	2.7	2.9	3.0	3.2	3.4
Social Contributions	66.6	70.6	77.6	92.6	105.7	117.1	114.5	121.2	128.4	135.3	142.5	150.4
Non-Tax Revenues	11.2	13.9	17.2	16.9	17.7	26.3	27.3	25.7	27.2	28.7	30.2	31.9
Capital Revenues	1.8	1.9	2.3	2.1	1.9	3.5	3.5	3.7	3.9	4.1	4.4	4.6
Grants	3.1	5.9	3.4	7.8	3.2	9.8	9.8	10.4	11.0	11.6	12.2	12.9
Expenditures	243.4	256.9	278.6	318.6	348.5	400.2	400.2	416.9	438.1	457.6	478.2	507.5
Current Expenditures	227.3	233.5	250.0	275.0	319.8	349.7	349.7	363.4	380.3	396.7	414.1	437.1
Wages and salaries	29.8	31.0	32.2	36.9	43.9	48.1	48.1	51.0	54.0	54.5	57.4	60.6
Goods and services	15.4	20.1	21.0	21.1	22.9	26.2	26.2	26.6	27.0	27.3	27.5	30.4
Transfers	174.1	173.3	187.7	204.1	235.0	254.7	254.7	264.3	274.2	284.1	296.7	311.9
Pension fund expenditures	68.8	71.5	78.4	90.1	105.6	120.0	120.0	127.1	133.4	139.4	145.5	152.3
Health	34.7	35.1	38.2	42.4	47.8	52.5	52.5	55.6	58.9	62.1	65.4	69.0
Other	70.6	66.7	71.1	71.6	81.7	82.2	82.2	81.6	81.8	82.6	85.7	90.5
Interest	8.0	9.1	9.1	12.9	18.0	20.7	20.7	21.5	25.2	30.9	32.5	34.3
Capital Expenditures	16.1	23.4	28.6	43.5	28.7	50.5	50.5	53.5	57.8	60.9	64.1	70.4
Overall fiscal balance	-53.9	-38.9	-35.5	-41.4	-42.2	-41.3	-51.5	-48.7	-45.9	-41.9	-37.8	-39.9
Primary fiscal balance	-45.8	-29.7	-26.4	-28.5	-24.2	-20.6	-30.8	-27.2	-20.8	-11.0	-5.3	-5.5
Financing	53.9	38.8	37.6	58.2	42.2	…	51.5	48.7	45.9	41.9	37.8	39.9
Domestic, net	14.2	13.6	16.8	45.8	14.7	…	61.2	30.4	30.7	39.7	30.8	31.8
Central Bank deposits	-6.9	-3.5	6.6	15.5	-22.2	…	30.8	0.0	0.0	0.0	0.0	0.0
Other net domestic financing	21.1	17.0	10.2	30.3	36.9	…	30.5	30.4	30.7	39.7	30.8	31.8
Privatization receipts	1.0	0.6	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Foreign, net	38.7	24.7	20.7	12.4	27.5	…	-9.7	18.3	15.2	2.2	7.0	8.1
Memo items:												
Gross general government debt (percent of GDP) 1/	50.8	52.7	50.4	50.8	54.8	…	52.9	54.5	55.4	56.1	56.2	56.2
Nominal GDP (billions of denars)	669	729	816	898	949	1022	1022	1082	1146	1208	1272	1343
Stock of Central Bank deposits (billions of denars eop)	41	43	36	36	58	…	27	27	27	27	27	27
Public and publicly guaranteed debt (percent of GDP) 1/ 2/	59.4	61.3	58.4	58.7	63.0	…	61.2	62.7	63.5	64.2	64.3	64.2

Sources: MoF; and IMF staff estimates.

1/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

2/ Includes general government and non-financial SOEs.

Table 2b. North Macedonia: Central Government Operations, 2020–30

(Percent of GDP)

	2020	2021	2022	2023	2024	2025		2026	2027	2028	2029	2030
						Budget	Proj.	Projections				
Total Revenues	28.4	30.0	29.8	30.9	32.3	35.1	34.1	34.0	34.2	34.4	34.6	34.8
Tax Revenues and Contributions	25.9	26.9	27.0	27.9	29.9	31.2	30.1	30.3	30.5	30.7	30.9	31.1
PIT	2.8	2.8	2.9	3.0	3.4	3.5	3.4	3.4	3.4	3.4	3.4	3.4
CIT	1.6	1.5	1.9	2.1	2.3	2.3	2.3	2.4	2.5	2.6	2.7	2.8
VAT (net)	7.0	8.0	7.9	7.8	8.6	8.5	8.6	8.7	8.8	8.9	9.0	9.1
Excises	3.4	3.5	3.1	3.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0	3.0
Custom Duties	1.0	1.2	1.2	1.3	1.4	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Other Taxes	0.3	0.3	0.3	0.4	0.1	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Social Contributions	9.9	9.7	9.5	10.3	11.1	11.5	11.2	11.2	11.2	11.2	11.2	11.2
Non-Tax Revenues	1.7	2.0	2.1	1.9	1.9	2.6	2.7	2.4	2.4	2.4	2.4	2.4
Capital Revenues	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.5	0.8	0.4	0.9	0.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Expenditures	36.4	35.3	35.0	35.5	36.7	39.2	39.2	38.5	38.2	37.9	37.6	37.8
Current Expenditures	34.0	32.1	31.5	30.6	33.7	34.2	34.2	33.6	33.2	32.8	32.5	32.5
Wages and salaries	4.4	4.3	3.9	4.1	4.6	4.7	4.7	4.7	4.7	4.5	4.5	4.5
Goods and services	2.3	2.8	2.5	2.4	2.4	2.6	2.6	2.5	2.4	2.3	2.2	2.3
Transfers	26.0	23.8	23.9	22.7	24.8	24.9	24.9	24.4	23.9	23.5	23.3	23.2
Pension fund expenditures	10.3	9.9	9.6	10.0	11.1	11.7	11.7	11.7	11.6	11.5	11.4	11.3
Health	5.2	4.8	4.7	4.7	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Other	10.5	9.1	9.6	8.0	8.6	8.0	8.0	7.5	7.1	6.8	6.7	6.7
Interest	1.2	1.2	1.1	1.4	1.9	2.0	2.0	2.0	2.2	2.6	2.6	2.6
Capital Expenditures	2.4	3.2	3.5	4.8	3.0	4.9	4.9	4.9	5.0	5.0	5.0	5.2
Overall fiscal balance	-8.0	-5.3	-5.2	-4.6	-4.4	-4.0	-5.0	-4.5	-4.0	-3.5	-3.0	-3.0
Primary fiscal balance	-6.8	-4.1	-4.1	-3.2	-2.6	-2.0	-3.0	-2.5	-1.8	-0.9	-0.4	-0.4
Financing	8.0	5.3	4.6	6.5	4.4	...	5.0	4.5	4.0	3.5	3.0	3.0
Domestic, net	2.1	1.9	2.1	5.1	1.5	...	6.0	2.8	2.7	3.3	2.4	2.4
Central Bank deposits	-1.0	-0.5	0.8	1.7	-2.3	...	3.0	0.0	0.0	0.0	0.0	0.0
Other domestic financing	3.2	2.3	1.3	3.4	3.9	...	3.0	2.8	2.7	3.3	2.4	2.4
Privatization receipts	0.1	0.1	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Foreign, net	5.8	3.4	2.5	1.4	2.9	...	-1.0	1.7	1.3	0.2	0.6	0.6
Memo items:												
Gross general government debt (percent of GDP) 1/	50.8	52.7	50.4	50.8	54.8	...	52.9	54.5	55.4	56.1	56.2	56.2
Nominal GDP (billions of denars)	669	729	816	898	949	1022	1022	1082	1146	1208	1272	1343
Stock of Central Bank deposits (billions of denars eop)	41	43	36	36	58	...	27	27	27	27	27	27
Public and publicly guaranteed debt (percent of GDP) 1/ 2/	59.4	61.3	58.4	58.7	63.0	...	61.2	62.7	63.5	64.2	64.3	64.2

Sources: MoF; and IMF staff estimates.

1/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

2/ Includes general government and non-financial SOEs.

Table 3a. North Macedonia: Balance of Payments, 2020–30

(Millions of euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections					
Current account	-318	-329	-801	56	-356	-406	-441	-470	-492	-516	-546
Trade balance	-1,804	-2,337	-3,482	-2,634	-3,103	-3,236	-3,381	-3,555	-3,740	-3,910	-4,107
Exports	4,820	6,041	7,321	7,236	6,725	6,919	7,228	7,553	7,912	8,299	8,719
Imports	6,623	8,378	10,802	9,871	9,829	10,155	10,610	11,109	11,653	12,209	12,826
Services (net)	424	498	749	736	1,062	1,087	1,138	1,204	1,269	1,350	1,416
Primary Income (net)	-411	-519	-568	-742	-801	-853	-903	-948	-999	-1,063	-1,122
Secondary Income (transfers, net)	1,473	2,029	2,500	2,697	2,487	2,596	2,706	2,829	2,978	3,107	3,267
Of which											
Official	110	139	59	132	57	56	47	48	45	42	41
Private	1,363	1,891	2,441	2,565	2,430	2,540	2,659	2,782	2,933	3,065	3,227
Capital account (net)	11	7	0	-1	9	7	6	4	5	6	6
Net lending (+) / Net borrowing (-)	-307	-322	-801	55	-346	-399	-435	-466	-487	-509	-541
Financial account	-428	-405	-1,026	-506	-541	-336	-683	-659	-543	-601	-728
Direct investment (net)	-155	-388	-654	-488	-1,088	-780	-703	-745	-785	-827	-873
Portfolio investment (net)	-284	-116	-52	34	290	715	-203	-296	-152	-205	-103
Other investment	11	98	-320	-52	256	-271	223	382	393	431	248
Trade credits (net)	-208	-88	-326	-66	231	-19	-10	-22	-10	-15	-29
MLT loans (net)	-276	-123	-159	-326	-593	-592	-93	41	90	55	-74
Public sector	-116	-49	-89	-155	-566	-467	2	153	215	186	68
Disbursements	378	150	185	295	777	643	196	121	100	114	114
of which: IMF credit	166	0	110	0	146	0	0	0	0	0	0
Amortization	-259	-98	-98	-143	-330	-177	-198	-274	-315	-300	-182
of which: Repayment to the IMF	0	0	0	-43	-86	-43	-52	-106	-73	-18	0
Banks	-51	-66	26	-32	27	-33	-33	-49	-64	-70	-76
Other sectors	-109	-8	-96	-140	-54	-93	-63	-63	-61	-61	-66
ST loans (net)	7	-126	-212	-77	233	-6	-3	2	7	0	1
Currency and deposits (net)	489	433	383	413	385	346	329	360	307	390	351
Other (net)	-1	2	-6	5	1	0	0	0	0	0	0
Errors and omissions	-7	58	41	41	116	0	0	0	0	0	0
Overall Balance	114	141	266	601	311	-63	249	193	56	91	187
Memorandum items:											
ST debt at residual maturity (year-end)	3,295	3,330	4,683	4,527	5,166	5,314	5,161	5,375	4,919	5,065	5,091
Gross foreign exchange reserves	3,360	3,643	3,863	4,538	5,029	4,966	5,214	5,407	5,464	5,555	5,742
Percent of IMF ARA Metric	113.1	109.7	100.8	114.0	120.0	111.4	112.5	111.7	110.0	107.5	107.0
Months of prospective imports of G&S	4.2	3.5	3.9	4.7	5.0	4.7	4.7	4.6	4.4	4.3	4.2
Percent of short-term debt (residual maturity)	102.0	109.4	82.5	100.3	97.4	93.4	101.0	100.6	111.1	109.7	112.8
External debt (percent of GDP)	78.7	80.9	81.5	77.9	79.9	76.7	76.8	76.6	75.6	75.1	74.7
External debt service	3,023	2,689	2,552	3,943	3,741	4,261	4,423	4,283	4,506	4,062	4,221
Percent of exports of G&S	48	35	26	40	39	42	42	39	39	33	33
Percent of exports of G&S and transfers	40	28	21	32	31	34	34	31	31	27	26

Sources: NBRNM; and IMF staff estimates.

Table 3b. North Macedonia: Balance of Payments, 2020–30
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections					
Current account	-2.9	-2.8	-6.1	0.4	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5
Trade balance	-16.6	-19.7	-26.3	-18.1	-20.1	-19.5	-19.2	-19.1	-19.1	-18.9	-18.8
Exports	44.4	51.0	55.3	49.6	43.6	41.7	41.1	40.6	40.3	40.2	40.0
Imports	61.0	70.8	81.6	67.7	63.8	61.2	60.3	59.7	59.4	59.1	58.8
Services (net)	3.9	4.2	5.7	5.0	6.9	6.5	6.5	6.5	6.5	6.5	6.5
Primary Income (net)	-3.8	-4.4	-4.3	-5.1	-5.2	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1
Secondary Income (transfers, net)	13.6	17.1	18.9	18.5	16.1	15.6	15.4	15.2	15.2	15.0	15.0
Of which											
Official	1.0	1.2	0.4	0.9	0.4	0.3	0.3	0.3	0.2	0.2	0.2
Private	12.6	16.0	18.4	17.6	15.8	15.3	15.1	14.9	14.9	14.8	14.8
Capital account (net)	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net lending (+) / Net borrowing (-)	-2.8	-2.7	-6.1	0.4	-2.2	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5
Financial account	-3.9	-3.4	-7.7	-3.5	-3.5	-2.0	-3.9	-3.5	-2.8	-2.9	-3.3
Direct investment (net)	-1.4	-3.3	-4.9	-3.3	-7.1	-4.7	-4.0	-4.0	-4.0	-4.0	-4.0
Portfolio investment (net)	-2.6	-1.0	-0.4	0.2	1.9	4.3	-1.2	-1.6	-0.8	-1.0	-0.5
Other investment	0.1	0.8	-2.4	-0.4	1.7	-1.6	1.3	2.1	2.0	2.1	1.1
Trade credits (net)	-1.9	-0.7	-2.5	-0.5	1.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
MLT loans (net)	-2.5	-1.0	-1.2	-2.2	-3.8	-3.6	-0.5	0.2	0.5	0.3	-0.3
Public sector	-1.1	-0.4	-0.7	-1.1	-3.7	-2.8	0.0	0.8	1.1	0.9	0.3
Disbursements	3.5	1.3	1.4	2.0	5.0	3.9	1.1	0.7	0.5	0.6	0.5
of which: IMF credit	1.5	0.0	0.8	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.4	-0.8	-0.7	-1.0	-2.1	-1.1	-1.1	-1.5	-1.6	-1.5	-0.8
of which: Repayment to the IMF	0.0	0.0	0.0	-0.3	-0.6	-0.3	-0.3	-0.6	-0.4	-0.1	0.0
Banks	-0.5	-0.6	0.2	-0.2	0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Other sectors	-1.0	-0.1	-0.7	-1.0	-0.4	-0.6	-0.4	-0.3	-0.3	-0.3	-0.3
ST loans (net)	0.1	-1.1	-1.6	-0.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits (net)	4.5	3.7	2.9	2.8	2.5	2.1	1.9	1.9	1.6	1.9	1.6
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.1	0.5	0.3	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	1.1	1.2	2.0	4.1	2.0	-0.4	1.4	1.0	0.3	0.4	0.9
					(Percentage change, year-on-year)						
Exports of G&S (Value)	-10.1	24.3	23.8	2.6	-2.4	4.1	5.0	4.9	5.0	5.0	5.2
Volume	-10.9	14.3	10.6	-0.6	-3.8	3.2	3.7	3.6	3.8	3.8	3.8
Price	0.9	8.8	11.9	3.2	1.4	0.8	1.2	1.2	1.1	1.2	1.4
Imports of G&S (Value)	-11.0	25.9	28.5	-4.7	-0.8	4.3	4.9	4.9	5.0	4.8	5.2
Volume	-10.9	14.8	9.3	-2.1	-0.6	3.9	4.1	4.0	4.1	4.2	4.1
Price	-0.1	9.7	17.6	-2.7	-0.2	0.4	0.7	0.8	0.8	0.6	1.1

Sources: NBRNM; and IMF staff estimates.

Table 4. North Macedonia: Monetary Survey, 2020–30

(Billions of Denars, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections					
NFA	195.2	195.9	188.5	229.3	281.7	273.4	284.0	294.9	298.8	308.4	325.2
Central Bank	202.6	203.1	203.9	241.9	272.1	268.2	283.5	295.4	298.8	304.4	316.0
Commercial Banks	-7.4	-7.2	-15.4	-12.7	-4.5	5.2	0.5	-0.5	0.0	4.0	9.2
NDA	241.1	278.8	311.3	298.8	295.9	353.7	388.3	421.5	463.2	504.5	541.4
Credit to Government (net)	35.4	47.1	53.6	57.8	54.5	98.5	109.5	120.7	135.0	146.3	157.7
From Banks (net)	70.1	74.9	74.3	78.7	99.5	110.6	121.6	132.8	147.1	158.4	169.8
of which: Credit	71.7	76.8	76.1	80.7	101.9	113.0	124.1	135.2	149.6	160.9	172.3
From Central Bank (net)	-34.7	-27.8	-20.7	-20.9	-45.0	-12.1	-12.1	-12.1	-12.1	-12.1	-12.1
of which: Deposits	-40.5	-43.0	-36.1	-35.8	-60.3	-27.1	-27.1	-27.1	-27.1	-27.1	-27.1
Credit to Private Sector (gross)	360.1	388.9	424.9	447.5	493.4	538.7	585.4	632.6	677.1	722.9	770.8
From Banks	359.2	388.1	424.0	446.7	492.5	537.8	584.5	631.8	676.2	722.0	769.9
Denars	210.5	230.7	245.2	259.9	303.0	330.8	359.6	388.7	416.0	444.2	473.7
FX	148.7	157.4	178.8	186.8	189.5	206.9	224.9	243.1	260.2	277.8	296.3
From Central Bank	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other Items (net)	-154.4	-157.2	-167.2	-206.5	-252.0	-273.5	-291.7	-316.9	-333.9	-349.7	-372.2
Broad Money (M3)	436.2	474.8	499.8	528.1	577.6	627.1	672.3	716.4	762.1	813.0	866.6
Currency in Circulation	43.7	44.5	47.5	48.8	51.0	54.2	56.8	59.4	62.0	64.6	67.5
Total Deposits	392.5	430.3	452.3	479.3	526.5	572.9	615.5	656.9	700.1	748.3	799.0
Denars	235.5	245.5	255.5	283.9	306.3	342.0	367.4	392.2	417.9	446.7	477.0
FX	157.1	184.8	196.8	195.3	220.3	230.9	248.1	264.8	282.2	301.6	322.1
	(Percentage change, year-on-year)										
Private Sector Credit	4.9	8.0	9.3	5.3	10.3	9.2	8.7	8.1	7.0	6.8	6.6
Broad Money	8.0	8.8	5.3	5.7	9.4	8.6	7.2	6.6	6.4	6.7	6.6
Private Sector Deposits	6.7	9.6	5.1	6.0	10.0	8.8	7.5	6.7	6.6	6.9	6.8
	(Contribution to annual growth in broad money)										
NFA	0.7	0.2	-1.6	8.2	9.9	-1.4	1.7	1.6	0.6	1.3	2.1
NDA	7.3	8.7	6.8	-2.5	-0.6	10.0	5.5	4.9	5.8	5.4	4.5
	(Percent of GDP)										
Private Sector Credit	53.8	53.3	52.1	49.9	52.0	52.7	54.1	55.2	56.1	56.8	57.4
Broad Money	65.2	65.1	61.2	58.8	60.9	61.3	62.1	62.5	63.1	63.9	64.5
Private Sector Deposits	58.6	59.0	55.4	53.4	55.5	56.0	56.9	57.3	58.0	58.8	59.5
Memorandum items:											
Money Multiplier	3.1	3.3	3.2	2.9	2.9	2.8	2.9	3.0	3.2	3.3	3.4
Reserve Requirement Ratio (percent of deposits)											
Denars	8.0	8.0	5.0	5.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
FX Indexed	50.0	50.0	50.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FX	15.0	15.0	18.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Velocity	1.5	1.5	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Sources: NBRNM; and IMF staff estimates.

Table 5. North Macedonia: Central Bank Survey, 2020–30

(Billions of Denars, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
								Projections			
Net foreign assets	202.6	203.1	203.9	241.9	272.1	268.2	283.5	295.4	298.8	304.4	316.0
Assets	207.4	226.7	246.6	279.4	309.6	305.7	321.0	332.9	336.3	341.9	353.4
Liabilities	-4.8	-23.6	-42.7	-37.5	-37.5	-37.5	-37.5	-37.5	-37.5	-37.5	-37.5
Net domestic assets	-62.7	-58.8	-48.0	-59.6	-76.0	-47.4	-54.2	-55.9	-57.1	-58.4	-59.0
Central Government (net)	-34.7	-27.8	-20.7	-20.8	-42.8	-12.1	-12.1	-12.1	-12.1	-12.1	-12.1
of which:											
Deposits at Central Bank	-40.5	-43.0	-36.1	-35.8	-57.9	-27.1	-27.1	-27.1	-27.1	-27.1	-27.1
Denar	-18.0	-21.0	-19.7	-20.3	-20.3	-20.3	-20.3	-20.3	-20.3	-20.3	-20.3
FX	-22.5	-22.1	-16.4	-15.5	-37.6	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
Banks (net)	-14.1	-17.3	-15.8	-22.1	-15.5	-16.3	-21.9	-22.4	-22.4	-22.6	-21.9
Other items (net)	-13.9	-13.7	-11.4	-16.7	-17.7	-19.1	-20.2	-21.4	-22.5	-23.7	-25.0
Monetary base	139.9	144.4	155.9	182.3	196.1	220.8	229.3	239.5	241.8	246.0	257.0
Currency in circulation	50.0	51.4	53.9	57.2	60.5	65.1	69.0	73.0	77.0	81.1	85.6
Liabilities to banks	81.5	85.1	93.7	114.1	126.6	146.2	150.5	157.1	155.3	155.3	161.9
Required reserves	36.2	49.0	44.9	52.6	57.8	62.9	67.5	72.1	76.8	82.1	87.7
Excess reserves	45.3	36.1	48.8	61.5	68.8	83.4	83.0	85.0	78.4	73.2	74.2
Liabilities to other sectors	8.4	7.9	8.3	10.9	9.0	9.4	9.8	9.4	9.5	9.6	9.5
					(Contribution to annual growth in monetary base)						
Net foreign assets	5.3	0.4	0.5	24.4	16.6	-2.0	6.9	5.2	1.4	2.3	4.7
Net domestic assets	2.3	2.8	7.4	-7.5	-9.0	14.6	-3.1	-0.7	-0.5	-0.6	-0.2
						(Percentage change, year-on-year)					
Monetary base	7.6	3.2	8.0	16.9	7.6	12.6	3.9	4.5	0.9	1.7	4.5
Memorandum items:						(Percent of GDP)					
Central Bank bills	1.5	1.4	1.2	1.1	1.0	1.0	1.4	1.3	1.2	1.2	1.1
Central government deposits at Central Bank	6.1	5.9	4.4	4.0	6.1	2.7	2.5	2.4	2.2	2.1	2.0

Sources: NBRNM; and IMF staff estimates.

Table 6. North Macedonia: Financial Soundness Indicators of the Banking System, 2016–24

(Percent)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital adequacy									
Regulatory capital/risk weighted assets	15.2	15.7	16.5	16.3	16.7	17.3	17.3	17.7	18.1
Tier I capital/risk weighted assets	13.9	14.2	15.0	14.8	15.3	15.8	15.8	16.6	17.2
Equity and reserves to Assets	10.6	10.8	10.8	11.0	11.6	11.6	11.6	12.3	12.4
Asset composition									
Structure of loans									
Enterprises (loans to enterprises/total loans)	51.3	50.2	49.3	47.6	46.2	46.3	46.3	46.9	46.1
Households (loans to households/total loans)	42.9	44.8	46.4	48.4	49.7	49.4	49.4	48.3	49.2
Lending with foreign currency component to private sector	44.9	42.5	41.4	42.3	42.3	41.2	41.2	43.2	42.2
Foreign currency lending/total credit to private sector	18.0	16.5	15.5	14.8	14.6	14.7	14.7	17.7	17.1
Foreign currency indexed lending/total credit to private sector	27.0	26.1	25.9	27.5	27.7	26.5	26.5	25.5	25.1
NPLs 1/									
NPLs/gross loans	6.3	6.1	5.0	4.6	3.3	3.1	3.1	2.8	2.7
NPLs net of provision/own funds	-5.5	-3.7	-5.2	-2.4	-6.9	-5.4	-5.4	-6.8	-6.5
Provisions to NPLs	80.9	77.2	76.3	67.7	73.2	66.3	66.3	69.4	70.1
Large exposures/own funds	185.4	176.3	218.2	256.2	281.5	256.3	256.3	243.6	245.4
Connected lending									
Banking system exposure to subsidiaries and shareholders/own	8.4	3.8	3.8	4.0	3.9	3.3	3.3	4.5	4.5
Banking system equity investments/own funds	2.0	1.9	1.2	1.3	0.8	1.0	1.0	0.8	0.7
Earning and profitability									
ROAA 2/	1.5	1.5	1.7	1.3	1.3	1.5	1.5	1.5	2.0
ROAE 2/	13.6	13.5	16.0	11.7	11.3	12.9	12.9	12.2	16.1
Interest margin/gross income 3/	62.7	60.6	57.9	58.3	56.8	52.9	52.9	55.2	63.0
Noninterest expenses/gross income 4/	53.2	52.5	50.5	55.0	53.0	53.1	53.1	54.0	49.5
Personnel expenses/noninterest expenses	35.2	34.8	37.4	36.6	36.7	34.3	34.3	33.3	34.0
Interest Rates									
Local currency spreads	4.3	4.1	3.9	3.7	3.7	3.6	3.6	3.5	3.5
Foreign currency spreads	4.5	4.3	3.9	3.7	3.6	3.6	3.6	3.6	3.7
Interbank market interest rate	1.0	1.1	1.1	1.1	1.1	1.1	1.1	2.5	4.3
Liquidity									
Highly liquid assets/total assets 5/	25.7	23.2	22.6	24.0	21.5	21.4	21.4	19.3	19.9
Highly liquid assets/total short-term liabilities 6/	44.5	40.1	39.2	41.3	35.7	34.4	34.4	30.6	32.7
Liquid assets/total assets	28.9	27.1	26.7	26.9	23.3	23.0	23.0	21.3	22.7
Liquid assets/total short-term liabilities	50.1	46.9	46.4	46.2	38.6	37.0	37.0	33.8	37.4
Customer deposits/total (noninterbank) loans	114.9	114.0	116.0	119.4	121.9	122.2	122.2	116.9	122.5
Foreign currency deposits/total deposits	43.0	42.7	42.3	40.7	41.8	44.8	44.8	46.3	44.4
Including foreign exchange-indexed 7/	43.1	43.1	42.5	40.8	41.9	45.0	45.0	46.4	44.5
Sensitivity to market risk									
Net open foreign exchange position/own funds	14.5	6.2	3.8	6.0	10.1	2.1	2.1	6.7	10.7

Source: NBRNM.

1/ Includes loans to financial and nonfinancial sector.

2/ Adjusted for unallocated provisions for potential loan losses.

3/ Interest margin represents interest income less interest expense. Gross income includes net interest income, fees and commissions income.

4/ Noninterest expenses include fees and commissions expenses, operating expenses and other expenses excluding extraordinary expenses.

5/ Highly liquid assets are defined as cash and balance with the NBRM, treasury bills, NBRM bills, and correspondent accounts with foreign banks. Assets in domestic banks are excluded from total assets.

6/ Short-term liabilities are defined as deposits and other liabilities with a maturity of one year or less (without deposits and borrowings from

7/ FX indexed deposits include deposits and other FX indexed liabilities.

Annex I. Risk Assessment Matrix

A. Global Risks (February 20, 2025)[1]

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
CONJUNCTURAL RISKS		
High **Trade policy and investment shocks.** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High Direct exposure is expected to be limited. However, indirect effects through important trade partners and diaspora could weigh on economic growth, export, and capital flows, particularly considering high export concentration in sectors likely to be targeted. Intensification of global inflation could fuel an already elevated domestic inflation.	• Design well targeted and temporary policy interventions to cope with additional price shocks. • Stand ready to tighten monetary policy if foreign uncertainty leads to an acceleration of domestic inflation. • Reinforce domestic policy credibility through steps to improve investment and business environment, predictability of the regulatory environment.
High **Sovereign debt distress.** Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	High Capital outflows could destabilize the peg by reducing foreign exchange reserves. This, coupled with rising risk premia, could increase borrowing costs and potentially lead to a loss of market access.	• Stand ready to adjust monetary and FX intervention policies to stabilize the currency and manage inflation, while ensuring the financial sector remains robust. • Promote structural reforms to attract foreign direct investment
Medium **Tighter financial conditions and systemic instability.** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing,	Medium Tighter financial conditions and systemic instability could lead to capital outflows, increase domestic vulnerabilities, and lower growth.	• Draw on ECB's temporary repo line to address liquidity needs as needed, while carefully managing monetary and FX intervention policies to support to peg • Stand ready to adjust macroprudential policies to

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.
The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.		release buffers and liquidity management tools to reduce volatility.
Medium **Regional conflicts.** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High** The direct impact is expected to be minimal due to limited linkages with Israel, Gaza, Russia, and Ukraine. However, an escalation of the war in Ukraine could affect North Macedonia through higher commodity prices, supply disruptions, tighter financial conditions, and lower tourism flows and remittances. An intensification of the conflict in the Middle East could result in higher oil prices.	• Design well-targeted and temporary policy interventions to cope with additional commodity price shocks. • Accelerate broad-based structural reforms to boost competitiveness, expand renewable energy production, and increase domestic production. • Promote energy savings through higher pass-through rates of international electricity prices for non-vulnerable clients, especially for peak-hour consumption.
Medium **Commodity price volatility.** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium** Higher energy prices will transmit to consumer prices and dampen household disposable income, leading to lower consumption growth, and increase firms' input costs, negatively impacting profits and investment plans. Higher energy imports to the regulated market may also weigh on the government's fiscal space. The external balance would also be negatively affected given high energy intensity of the economy and dependence on energy imports.	• Design targeted and temporary policies to cope with additional commodity price shocks. • Promote energy savings through well-designed measures to increase efficiency in the use of energy; and by passing through international electricity prices for non-vulnerable clients, especially for peak-hour consumption. • Promote energy savings through higher pass-through rates of international electricity prices for non-vulnerable clients, especially for peak-hour consumption.
Low **Global growth acceleration.** Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	**Low** Acceleration of global growth would support export growth and FDI and other investments in North Macedonia.	• Accelerate broad-based structural reforms to boost competitiveness, expand renewable energy production, and increase domestic production.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
STRUCTURAL RISKS		
High **Deepening geoeconomic fragmentation.** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High** Worsening economic outlooks of key trading partners could weigh on economic growth, export, and capital flows. Intensification of global inflation could fuel an already elevated domestic inflation.	• Design well targeted and temporary policy interventions to cope with additional price shocks. • Accelerate broad-based structural reforms to boost competitiveness, expand renewable energy production, and increase domestic production. • Stand ready to tighten monetary policy if foreign uncertainty leads to an acceleration of domestic inflation.
High **Cyberthreats.** Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**Medium** Cyberattacks, technological failures, or AI misuse could destabilize financial markets, disrupt payment systems, and undermine trust in digital financial infrastructure. The resulting instability may manifest through liquidity shortages, capital flight, or systemic disruptions in banking and financial services.	• Strengthening cybersecurity frameworks and resilience measures for financial institutions. • Enhancing regulatory oversight of digital assets, including crypto markets and AI-driven financial services. • Developing contingency plans and crisis management protocols to mitigate systemic risks.
Medium **Climate change. Natural hazards and** extreme climate events driven by rising temperatures and rainfail pattern changes such as urban and river floods, prolonged extreme heat periods, wildfires, earthquakes and landslides.	**Medium** Climate change could have multifaceted effect, endagering public safety and causing loss of life, damaging infrastructure, food insecurity and supply disruptions, lower growth and financial instability.	• Speed up implementation of mitigation and adaption plans outlined in the National Energy and Climate Plan. • Reinforce Public Investment Management framework to include climate change-sensitive perspective, including in methodologies for project appraisal and selection. • Perform sound climate change risk assessment identifying key hazards, risk mitigation, and appropriately assessing deriving climate change related fiscal risks.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
	STRUCTURAL RISKS	
Medium **Social discontent.** Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium** Social discontent could result in economic losses as well as in costly policy proposals.	• Establish clear and sustainable indexing mechanism for social transfers. • Transfer programs and budget assistance should be more targeted to the vulnerable.

B. Domestic Risks

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
High **Persistent elevation in consumer price inflation with second-round effects.** Headline and core inflation in North Macedonia have lacked a clear downward trend since late 2023.	**High** Further increases to wages and an untethering of expectations from market fundamentals could prolong the high inflation period leading to a sustained gap with the euro area and a loss in competitiveness.	• Maintain tighter monetary policy until core inflation subsides. • Contain further increases to public wages, pensions, and other entitlements.
High **Overruns in budget spending, larger-than-expected obligations from investment projects, and costs associated with upcoming local elections.**	**High** Further increases in costs could limit fiscal space and weigh on growth if other government investments and expenditures are lowered and if productivity-enhancing structural reforms are delayed.	• Allow for a suitable buffer in the budget to account for potential cost overruns.
Medium **Slow progress in implementing structural reforms.** Informality, corruption, and public infrastructure gaps remain problems in North Macedonia.	**Medium** Lack of success in implementing structural reforms could result in slow productivity growth and continued loss in population from high emigration.	• Accelerate broad-based structural reforms through policies to increase domestic production and exports.

Annex II. Sovereign Risk and Debt Sustainability Analysis

Annex II. Table 1. North Macedonia: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium- and long-term horizons.
Near Term 1/			
Medium Term	Moderate	Moderate	Medium-term risks are assessed as moderate against a mechanical moderate signal on the basis of a moderate debt level, moderate-to-high GFN needs, and moderate indication from natural disaster stress-test.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	…	…	
Long Term	…	Moderate	Long-term risks are moderate as aging-related expenditures on health and social security feed into debt dynamics.
Sustainability Assessment 2/	…	…	…
Debt Stabilization in the Baseline			No

DSA Summary Assessment

Commentary: North Macedonia is at a moderate medium-term overall risk of sovereign stress, but debt is sustainable with high probability. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded and global commodity prices have receded, following the sharp-rise on the back of Russia's invasion of Ukraine. Reforms continue to be needed to slow down pension and wage growth, as well as lower energy subsidies. GIven recent fiscal loosening, debt is projected to gradually rise in the medium term. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Over the longer run, reforms to tackle risks arising from population aging pension spending are needed.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex II. Figure 1. North Macedonia: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	PNFCs exists on a small scale.
				7	Central bank	No	
				8	Other public financial corporations	Yes	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

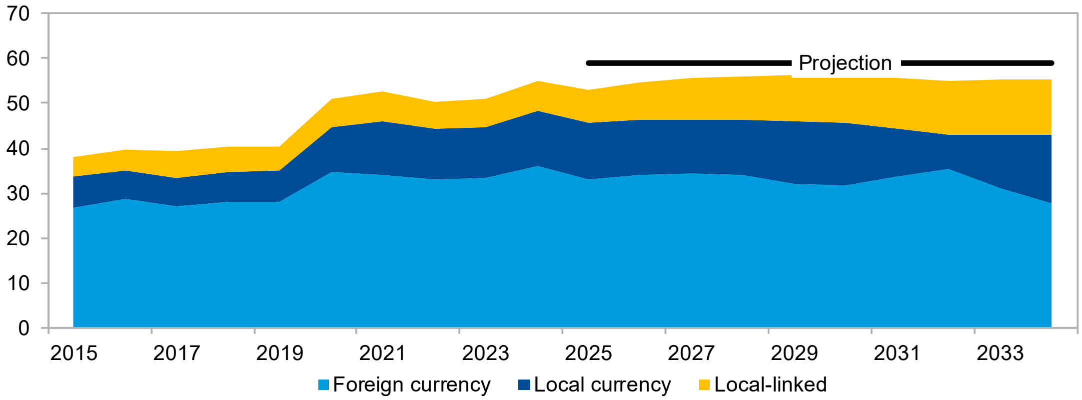
Reporting on Intra-Government Debt Holdings

					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

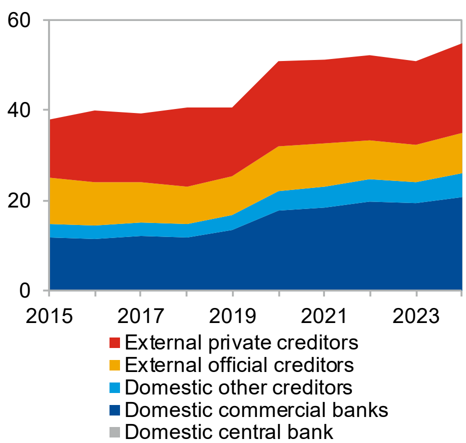
Annex II. Figure 2. North Macedonia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



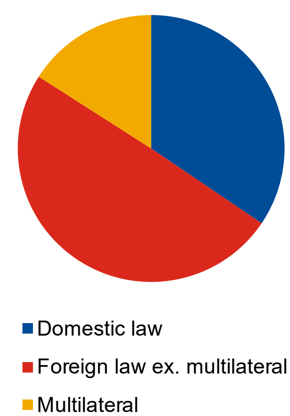
Note: The perimeter shown is general government Local-linked bonds are bonds issued with a currency clause.

Public Debt by Holder (Percent of GDP)



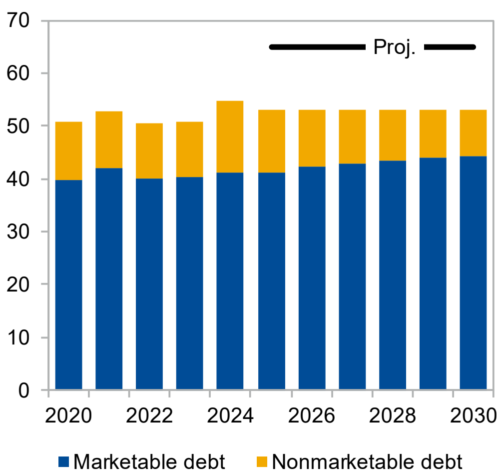
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



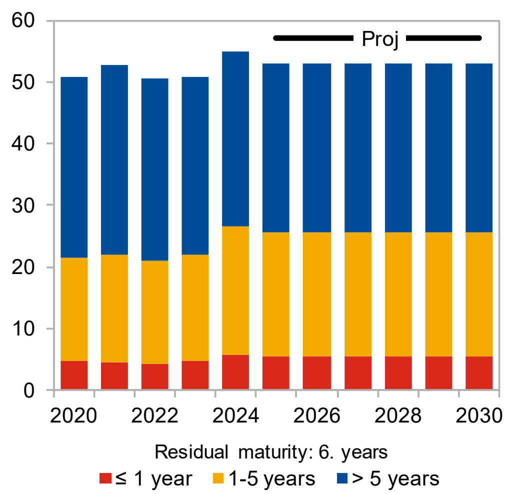
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

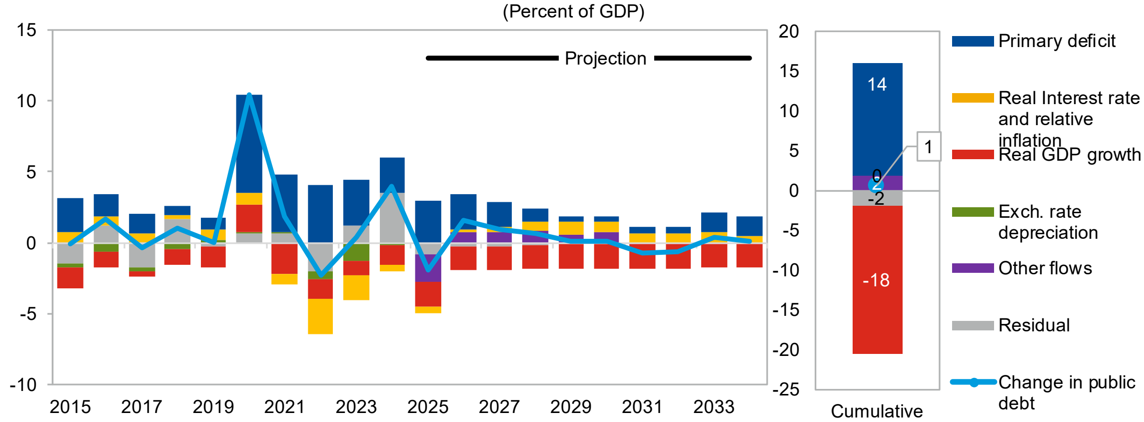
Annex II. Table 2. North Macedonia: Baseline Scenario

(Percent of GDP Unless Indicated Otherwise)

	Actual	Medium-Term Projection						Extended Projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public Debt	54.8	52.9	54.5	55.4	56.1	56.2	56.3	55.6	54.9	55.3	55.4
Change in Public Debt	4.0	-1.9	1.5	1.0	0.6	0.1	0.1	-0.7	-0.6	0.4	0.1
Contribution of Identified Flows	0.5	-1.1	1.8	1.2	0.8	0.2	0.2	-0.6	-0.5	0.5	0.2
Primary Deficit	2.6	3.0	2.5	1.8	0.9	0.4	0.4	0.4	0.4	1.4	1.4
Noninterest Revenues	32.3	34.1	34.0	34.2	34.4	34.6	34.9	35.1	35.4	34.4	34.4
Noninterest Expenditures	34.8	37.1	36.5	36.0	35.3	35.0	35.3	35.5	35.8	35.8	35.8
Automatic Debt Dynamics	-2.0	-2.2	-1.5	-1.3	-1.0	-0.8	-1.0	-1.0	-1.0	-0.9	-1.2
Real Interest Rate and Relative Inflation	-0.5	-0.5	0.1	0.4	0.7	0.9	0.7	0.7	0.7	0.7	0.5
Real Interest Rate	-0.6	-1.3	-0.1	0.1	0.5	0.7	0.6	0.6	0.6	0.6	0.4
Relative Inflation	0.1	0.8	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real Growth Rate	-1.4	-1.8	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Real Exchange Rate	-0.1	…	…	…	…	…	…	…	…	…	…
Other Identified Flows	0.0	-1.9	0.8	0.7	0.8	0.6	0.8	0.0	0.0	0.0	0.0
Contingent Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Transactions	0.0	-1.9	0.8	0.7	0.8	0.6	0.8	0.0	0.0	0.0	0.0
Contribution of Residual	3.5	-0.8	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross Financing Needs	11.4	10.1	15.0	13.1	12.8	13.4	11.7	8.8	9.7	16.9	14.9
Of Which: Debt Service	8.8	7.1	12.5	11.2	11.9	13.0	11.3	8.4	9.3	15.5	13.5
Local Currency	6.2	1.4	6.8	6.4	5.7	5.6	5.5	5.2	6.3	6.4	5.6
Foreign Currency	2.0	4.8	4.7	3.9	5.0	6.3	4.4	2.1	1.7	7.5	6.2
Memo:											
Real GDP Growth (percent)	2.8	3.3	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Inflation (GDP Deflator; Percent)	2.8	4.3	2.6	2.6	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Nominal GDP Growth (Percent)	5.7	7.7	5.9	5.9	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Effective Interest Rate (Percent)	1.5	1.8	2.4	2.8	3.2	3.6	3.3	3.3	3.4	3.4	2.9

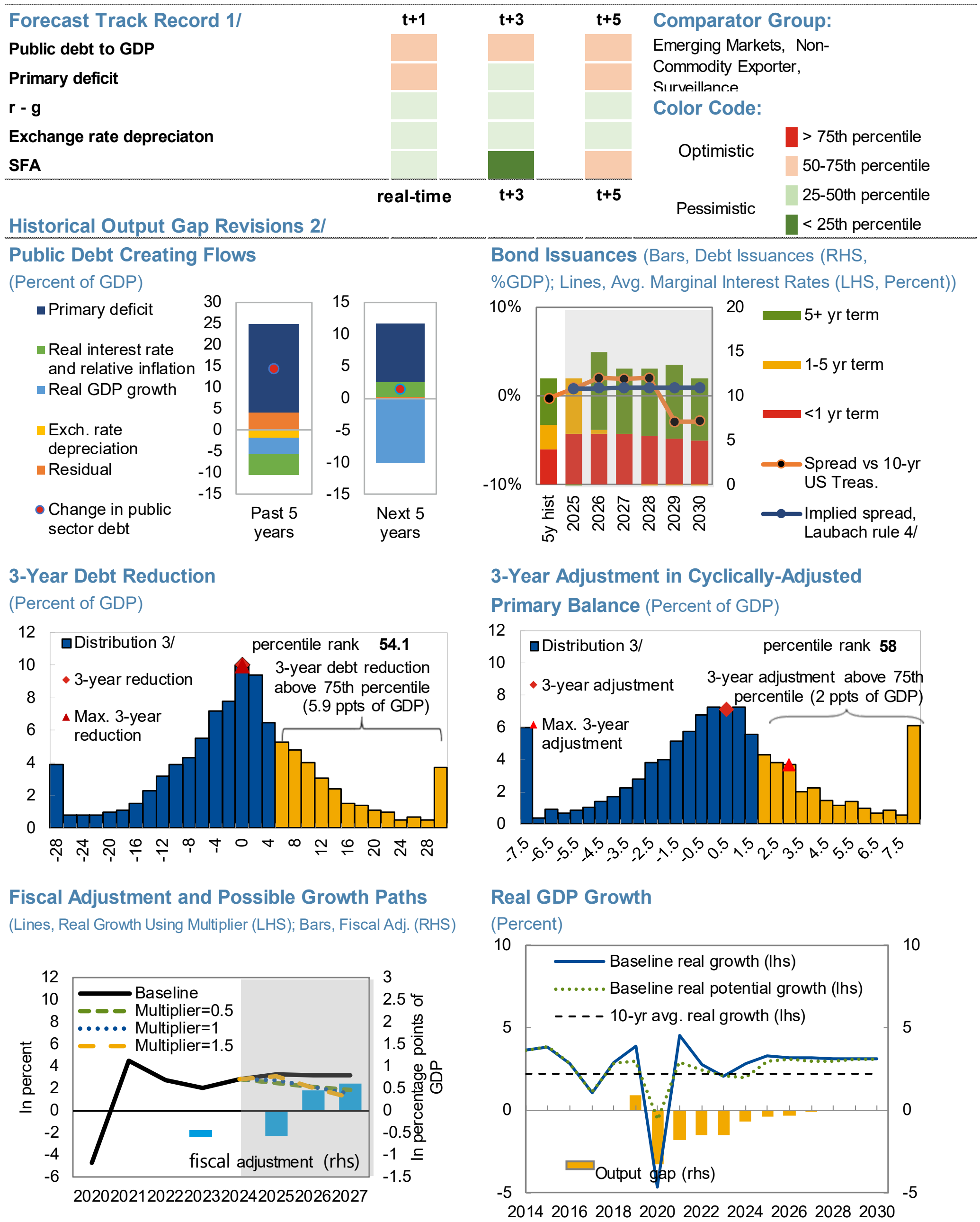
Contribution to Change in Public Debt

(Percent of GDP)



Staff commentary: The contribution of the residual in 2024 is due to the contribution from the real exchange rate, which is not reported in the Table. Given the de facto peg to the euro, as relative inflation differences decreases from 2025, so does the contribution of the residual.

Annex II. Figure 3. North Macedonia: Realism of Baseline Assumptions



Commentary: Staff's growth projections over the projection period, includes a significant scale-up of public investments and convergence to the European Union, and is therefore higher than the historical average. Taken together with the planned consolidation efforts and given a typically low fiscal multiplier for North Macedonia, this underpins the stabilization of the debt/GDP trajectory going forward.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage. Program status not used in creating comparator group due to lack of data.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

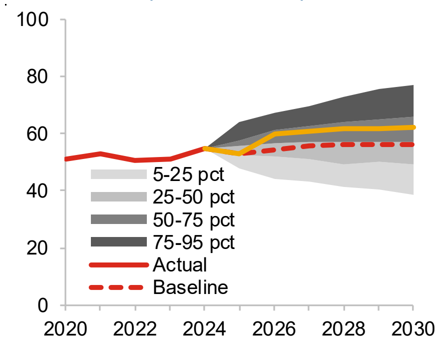
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) ruleis a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex II. Figure 4. North Macedonia: Medium-Term Risk Assessment

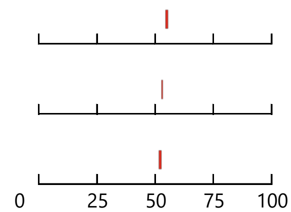
	Value	Contrib 1/	Percentile in Peer Group 2/

Final Fanchart (Percent of GDP)



Debt Fanchart Module

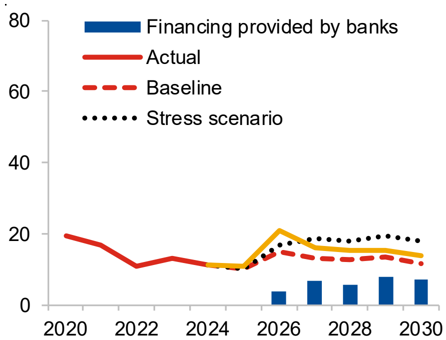
	Value	Contrib 1/
Fanchart width *(percent of GDP)*	38.5	0.6
Probability of debt non-stabilizaiton *(percent)*	22.6	0.2
Terminal debt-to-GDP x institutions index	31.5	0.7



Debt Fanchart Index (DFI) 1.4

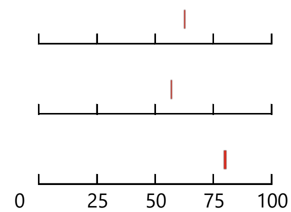
Risk signal: 3/ Moderate

Gross Financing Needs (Percent of GDP)



Gross Financing Needs (GFN) Module

	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	12.7	4.3
Banks' claims on the gen govt *(pct bank assets)*	10.9	3.5
Chg. In banks' claims in stress *(pct banks' assets)*	23.9	8.0

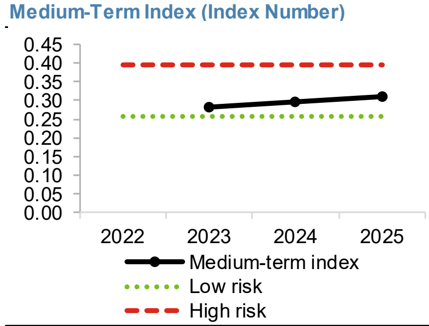


GFN Financeability Index (GFI) 15.9

Risk Signal: 4/ Moderate

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-Term Risk Analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index (DFI)	1.43	0.32	0.50	0.16
GFN finaceability index (GFI)	15.85	0.30	0.50	0.15
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 26.1 pct.

Commentary: Medium-term risks are assessed as moderate against a mechanical moderate signal on the basis of a moderate debt level, moderate-to-high GFN needs, and moderate indication from natural disaster stress-test.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex II. Figure 5. North Macedonia: Long-Term Risk Assessment

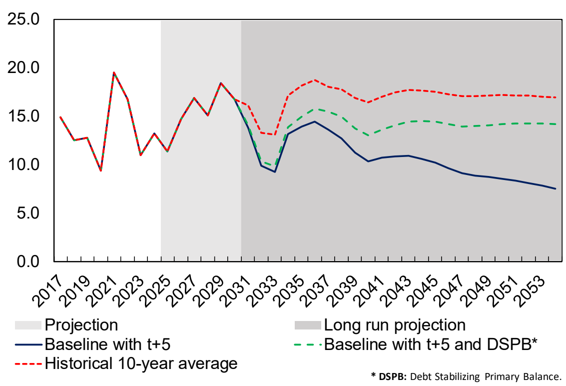
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

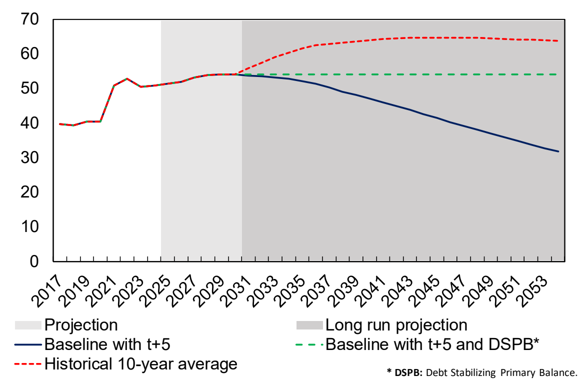
Overall Risk Indication	

Alternative Baseline Long-term Projections

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



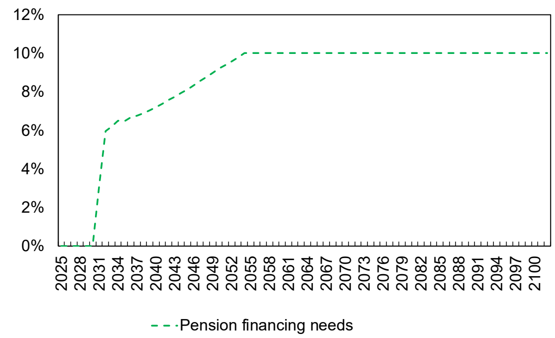
Commentary: The historical 10-year average projection is a mechanical projection using the 10-year average primary deficit to GDP. This should not be confused with staff's baseline projection.

Annex II. Figure 5. North Macedonia: Long-Term Risk Assessment (concluded)

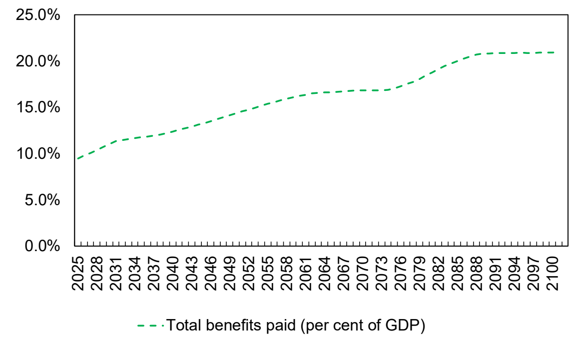
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	6.22%	7.80%	8.67%

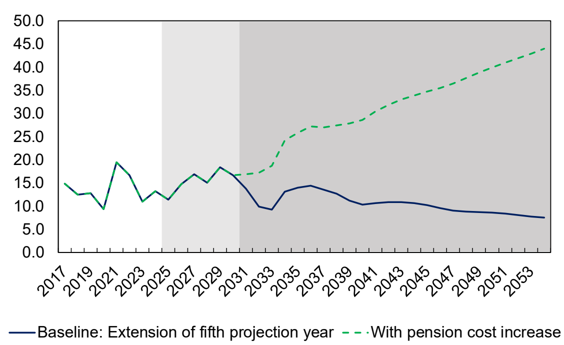
Pension Financing Needs



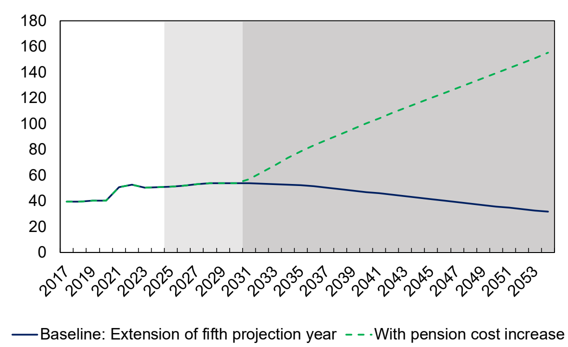
Total benefits paid



GFN-to-GDP ratio



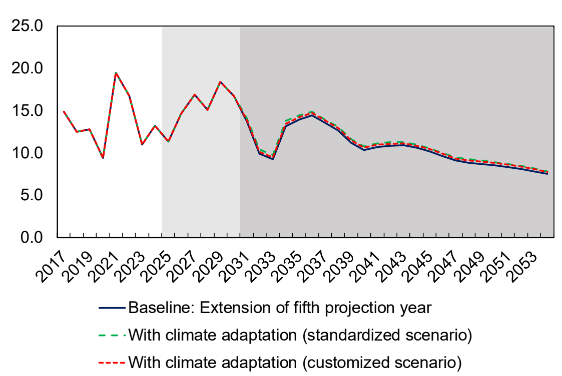
Total public debt-to-GDP ratio



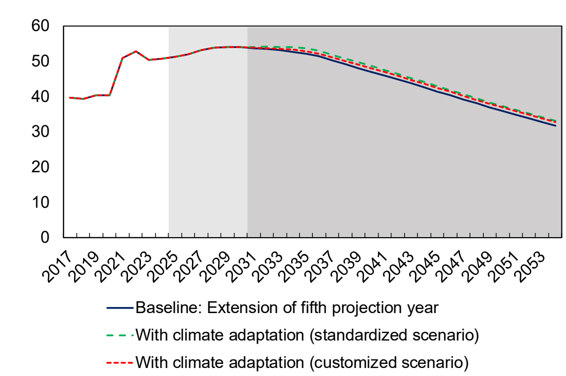
Commentary: North Macedonia is transitioning to a multi-pillar pension system. The pension module illustrates the financing need during the transition period (beyond 2030) for both benefit spending and transfers to the 2nd pillar fund. After the transition is completed by the mid-2050s, the financing need is assumed to be stable as the objective of the multi-pillar system is to reduce financing needs and currently there are no long run projections from the authrorities.

Climate Change: Adaptation

GFN-to-GDP Ratio



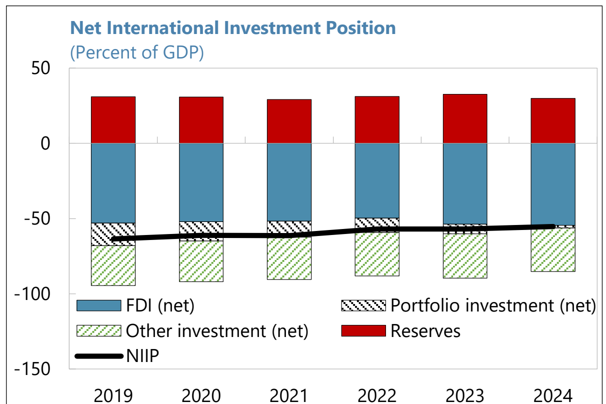
Total Public Debt-to-GDP Ratio



Commentary: The standardized scenario uses standard costs for additional adaptation investment needs on new investments as well as strengthening existing assets, including coastal protection, all reflected in a higher permanent primary deficit. The customized scenario removes coastal protection as North Macedonia is land-locked.

Annex III. External Sector Assessment

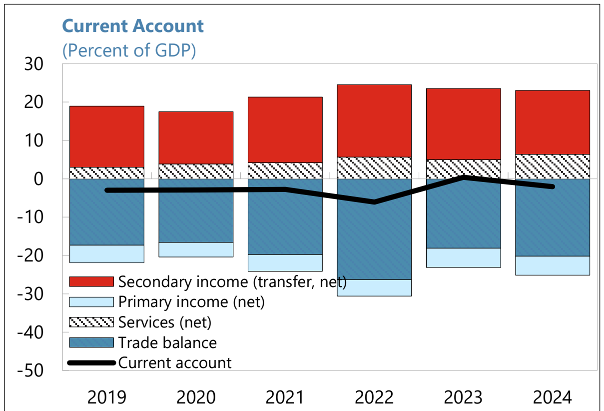
Overall Assessment: *North Macedonia's external position in 2024 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. The EBA-lite CA model results indicate a current account gap of 2.8 percent of GDP, implying a REER undervaluation of 5.9 percent. North Macedonia is a net energy importer with a relatively high trade openness and has experienced large swings in the external balance during shocks.* ***Potential Policy Responses:*** *The de facto stabilized exchange rate regime provides an anchor of stability for the economy and should be supported with a consistent policy mix, which requires maintaining appropriately tight monetary policy and undertaking credible medium-term fiscal consolidation as prerequisites for domestic and external stability. North Macedonia's external competitiveness, income convergence and shock absorption capacity could be improved through productivity enhancing structural reforms that facilitate innovation, skill upgrade, address labor market shortages, and reduce informality. Governance reforms that improve business environment, functioning of public institutions, service delivery, rule of law and anti-corruption would also contribute to economic development and aide with emigration challenges.*					
Foreign Assets and Liabilities: Position and Trajectory					
Background. North Macedonia's net international investment position (NIIP) improved marginally to -56.9 percent of GDP in 2024, constituting a cumulative 6.7 percent of GDP improvement since the 2020 pandemic peak. In 2024, strong net FDI and other investment inflows were offset by lower portfolio investment. Foreign assets rose to 61.2 percent of GDP, largely due to contribution from reserves, portfolio and other investment. Reserve assets comprised 32.6 percent of GDP, whereas gross foreign liabilities increased to 118 percent of GDP. **Assessment.** External sustainability risks arising from a negative NIIP are mitigated by the structure of North Macedonia's foreign liabilities, with FDI liabilities comprising over half of liabilities and given the low share of debt related liabilities. The NIIP is projected to improve further over the medium-term largely due to lower other investment and moderate current account deficits.					
2024 (% GDP)	NIIP: -56.9	Gross Assets: 61.2	Debt Assets: 1.4	Gross Liab.: 118	Debt Liab.: 13.6



Sources: NBRNM and IMF staff calculations.

Current Account

Background. The current account recorded a 2.3 percent of GDP deficit in 2024, following an exceptional 2023 surplus. The external balance weakened due to deterioration in the goods balance and moderating transfers, while services continued to perform strongly. Trade deficit increased to 20.1 percent of GDP, reflecting less favorable terms of trade and lower export volume. About four-fifths of North Macedonia's goods are exported to the EU with a considerable share of export related to the automotive sector, which faces structural shifts, including due to the ongoing EV transition. Over the medium term, the current account deficit is expected to stabilize at about 2.5 percent of GDP, with continued moderation in transfers and as recovering external demand leads to improved trade balance.



Sources: NBRNM and IMF staff calculations.

Assessment. Based on the EBA-lite current account (CA) model, North Macedonia's external position in 2024 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. The EBA-lite model estimates the cyclically adjusted current account norm at -5.1 percent of GDP, while the cyclically adjusted actual CA balance at -2.3 percent of GDP, resulting in a CA gap of 2.8 percent of GDP. Model results include 0.2 percent of GDP unexplained residual, with the largest contributions to the estimated CA norm coming from variables related to labor productivity and outward migration, the latter being used as a proxy for current transfers. However, while the migrant share has increased considerably based on the UN population data, similar trend was not observed in secondary income, which suggests that model results may underestimate the CA norm. Contribution from policy gaps reflects relative fiscal underperformance in the rest of the world and strong 2024 reserve accumulation. Structural reforms that enhance the capacity to absorb productive investment would contribute to narrowing the CA gap and uplift growth potential.

North Macedonia: EBA-lite Model Results, 2024

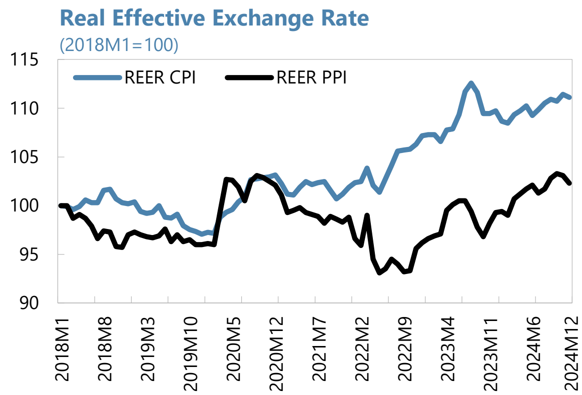
	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-2.3**	
Cyclical contributions (from model) (-)	0.0	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**-2.3**	
CA Norm (from model) 2/	**-5.1**	
Adjusted CA Norm	**-5.1**	
CA Gap	**2.8**	**-3.8**
o/w Relative policy gap	2.6	
Elasticity	-0.5	
REER Gap (in percent)	**-5.9**	**8.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

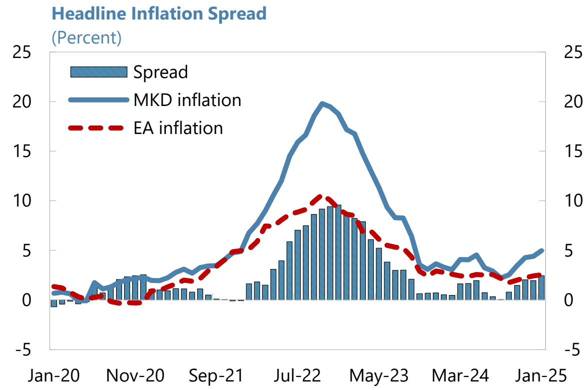
Real Exchange Rate

Background. The CPI-based real effective exchange rate (REER) appreciated by 1.4 percent in 2024, resulting in a cumulative 13 percent appreciation since 2019, whereas the PPI-based REER appreciated by 5 percent in five years. Inflation differential vis-à-vis trade partners started to narrow in the beginning of 2023, slowing the pace of CPI-based REER appreciation, though inflation resumed acceleration trend in 2024Q4.

Assessment. The CA and REER models show diverging results, suggesting uncertainty and need to interpret the results with caution. The CA model indicates a REER undervaluation of 5.9 percent, with an estimated elasticity of -0.5, whereas the REER model finds overvaluation of 8.1 percent, largely due to contribution from unexplained model residual. Despite mixed model results, it is nonetheless important to be mindful of risks associated with REER appreciation. If sustained, it may put pressure on external competitiveness over the medium term, e.g., if wage growth outpaces productivity and labor shortages intensify due to skill mismatches, net migration, or population ageing.



Sources: NBRNM and IMF staff calculations.



Sources: Haver Analytics and IMF staff calculations.

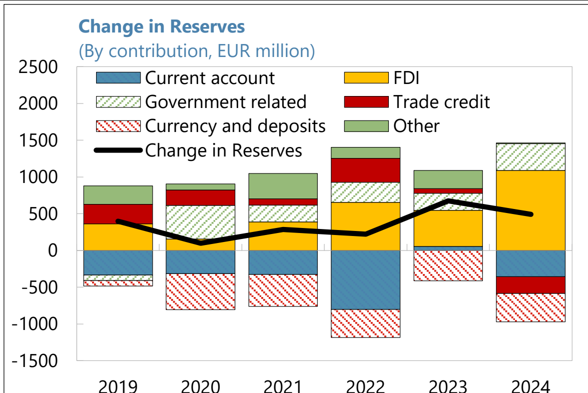
Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital inflows from the financial account in 2024 were similar to 2023, comprising 3.5 percent of GDP. While inflows from net FDI were particularly strong (7.1 percent of GDP vs. 3.3 percent in 2023) and MLT loans have increased following the €500 million loan disbursement (first tranche) from Hungary and a €147 million PLL purchase at the beginning of 2024, this was partly offset by higher portfolio outflows and outflows from trade credits and short-term loans.

Assessment. In 2025, capital inflows are expected to be smaller than in 2024, dominated by moderating FDI and government-related flows, which include Eurobond amortization in January and the disbursed second tranche of the loan from Hungary. There were no changes in capital flow measures (CFMs) in North Macedonia in 2024.

FX Intervention and Reserves Level

Background. North Macedonia has a de facto stabilized exchange rate regime. The peg to the euro is implemented by the NBRNM with standing offers to buy and sell FX with the main banks at a small window around the target. Over the last decade, interventions have been volatile—ranging between -4.3 and +3.5 percent of GDP—but overall positive (net purchase of FX). During 2024, net intervention amounted to 2.9 percent of GDP. The NBRNM continued accumulating reserves in 2024 with end-December GIR at €5 billion. Reserve accumulation was supported by strong inflows from the financial account, notably FDI and government-related transactions (including the receipt of the first €500 million tranche of the loan from Hungary).



Source: NBRNM and IMF staff calculations.

Assessment. North Macedonia's reserves are comfortably within the reserve adequacy metric, providing buffer against shocks. Reserve adequacy increased to 120 percent of the ARA metric by end-2024, following the disbursement of the Hungarian loan. Reserve adequacy is expected to be maintained under the baseline of moderate current account deficits and steady inflows from the financial account, notably FDI.

Annex IV. Data Issues

Annex IV. Table 1. North Macedonia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	A	A	B	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	B	A	B		
Granularity 3/	B		A	A	A		
			B		A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The data collection and dissemination have some shortcomings but are broadly adequate for surveillance. However, there are issues related to: (i) large revisions to national accounts data (e.g., 1pp increase in real GDP growth in 2023), (ii) large fluctuations in deflators that present obstacles that hamper surveillance, (iii) the GFS data not capturing the general government, (iv) lack of coverage of financial institutions outside of the banking sector, such as non-bank financial institutions (e.g., financial corporations), as well as banks' real estate exposure, particularly to commercial real estate, (v) some data, particularly FSIs, are reported with signficant lags.

Changes since the last Article IV consultation. With Fund CD, the authorities have decided to incorporate the road fund into the general government in 2025. The authorities are working to resolve the longstanding discrepancy between the changes in IIP stock and the corresponding balance of payments transactions for currency and deposits assets of nonfinancial sectors as well as improving the estimates of personal transfers.

Corrective actions and capacity development priorities. Improvements should focus on reducing the need for large future revisions to national accounts data and improving the quality of deflators. Introduce mandatory requirements for banks to disclose detailed exposures to real estate, especially CRE, including loan performance metrics and geographic concentration. Develop and regularly publish a CRE price index to better monitor trends in commercial property markets.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Disaggregation of Gross Capital Formation data by GFCF and change in inventories at the time of release. Improvements relating to the measurements of the size and nature of the informal economy, comprehensive taxpayer databases, and detailed transaction-level information (which e-invoicing aims to provide) would facilitate the modernization of tax administration.

Annex IV. Table 2. North Macedonia: Data Standards Initiatives

North Macedonia adheres to the Special Data Dissemination Standard (SDDS) Plus since January 2019 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex IV. Table 3. North Macedonia: Table of Common Indicators Required Surveillance

(As of March 21, 2025)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	3/21/25	03/21/25	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb. 2025	03/21/25	M	M	M
Reserve/Base Money	Feb. 2025	03/21/25	M	M	M
Broad Money	Feb. 2025	03/21/25	M	M	M
Central Bank Balance Sheet	Feb. 2025	03/21/25	M	M	M
Consolidated Balance Sheet of the Banking System	Feb. 2025	03/21/25	M	M	M
Interest Rates[2]	Jan. 2025	02/28/25	M	M	M
Consumer Price Index	Feb. 2025	03/18/25	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Feb. 2025	03/14/25	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Feb. 2025	03/14/25	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2024	02/19/25	Q	Q	Q
External Current Account Balance	Dec. 2024	02/28/25	M	Q	Q
Exports and Imports of Goods and Services	Dec. 2024	02/28/25	M	Q	Q
GDP/GNP	2024Q4	03/04/25	Q	Q	Q
Gross External Debt	2024Q3	12/30/24	Q	Q	Q
International Investment Position[6]	2024Q3	12/30/24	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Weighted interest rates on loans and deposits in domestic banks. Separately, data is submitted on the rates on central bank bills (policy rate) and treasury bills, notes, and bonds.

[3] Foreign, domestic bank and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Data including local governments is normally published quarterly but is also received on an ad-hoc basis during missions.

[5] Currency and maturity composition is reported only on request.

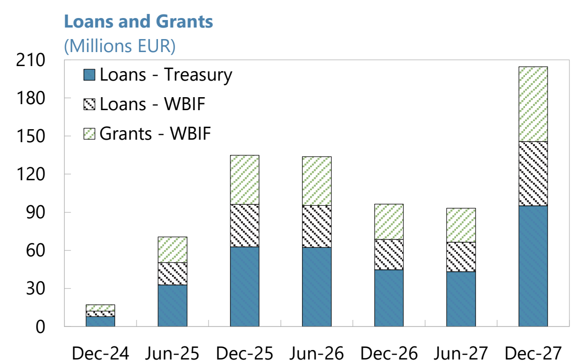
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

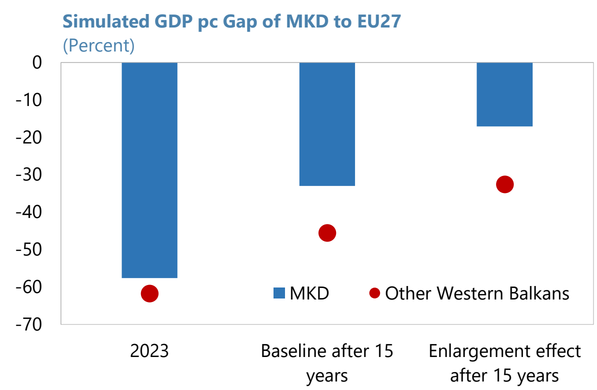
Annex V. The Effect of EU Integration on Convergence[1]

1. North Macedonia stands to gain substantially from EU integration. IMF (2024) estimates large income per capita gains for new member states from EU accession using a synthetic difference-in-difference design to compare new member states against comparable countries over the previous EU enlargements rounds. Higher total factor productivity, due in part to increased knowledge flows, and capital deepening, driven by increased FDI, contribute around equally to the increases in income per capita. The model estimates imply that joining the EU would increase income per capita in North Macedonia by 30 percent over 15 years, closing around half of the remaining gap with the EU.

2. North Macedonia can benefit from the new Reform and Growth Facility designed by the EU to incentivize reforms in the Western Balkan Countries. Under the facility, North Macedonia could potentially receive up to €750 million in grants and concessional loans upon successful implementation of the agreed reform commitments, which include operationalizing the Fiscal Council, strengthening the system of public procurements, management of SOEs, reforming the state aid regime, measures to reduce informal economy, enhance public administration efficiency, and support digitalization. It also aims to address long-standing governance vulnerabilities, improve functioning of the judiciary and strengthen the anti-corruption framework, including by reversing the 2023 amendments to the Criminal Code, which raised concerns over weakening the prosecution of high-level corruption cases. Implementation of the Reform Agenda supported by the EU would help to solidify North Macedonia's institutional and policy frameworks, contributing to growth potential, although the pace of growth acceleration may be initially slow and depends crucially on the speed of reform adoption and ownership.



Note: WBIF refers to the Western Balkans Investment Framework.
Sources: The European Commission and IMF staff calculations.



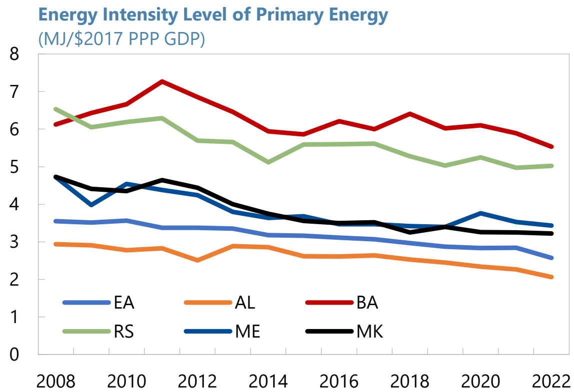
Sources: IMF WEO database and IMF staff calculations.

[1] Prepared by Stephen Ayerst, Rimtautas Bartkus, and Simona Kovachevska Stefanova.

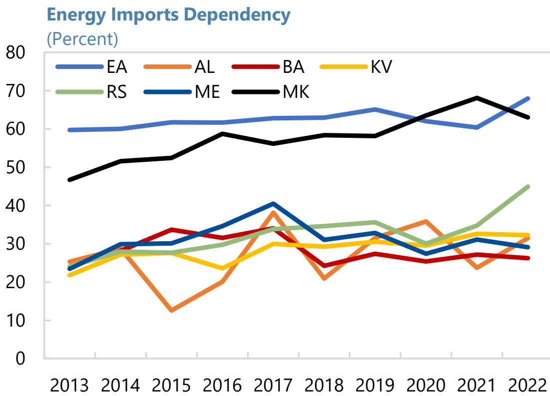
Annex VI. Ongoing Challenges in the Electricity Sector[1]

3. North Macedonia's economy is characterized by high energy intensity, significant reliance on energy imports, and aging fossil-fuel-based electricity generation. Despite reductions over time, the country's energy intensity remains above the Euro area, heavily dependent on energy imports which surpass other Western Balkan economies. Approximately 70 percent of electricity is generated from fossil fuels, while renewable sources contribute around 30 percent, with hydropower accounting for 25 percent (see Figure 1).

Annex VI. Figure 1. North Macedonia: Energy Intensity and Import Dependency in Western Balkans Countries



Source: World Bank World Development Indicators.

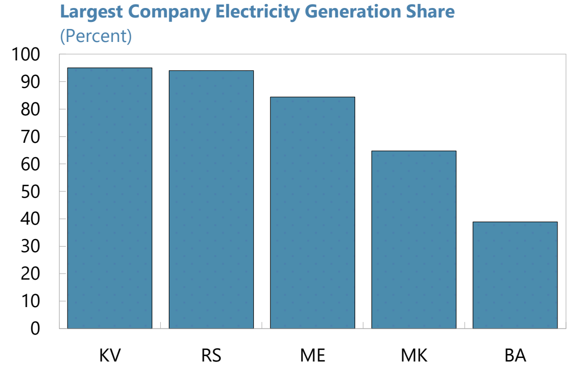


Source: Eurostat.

2. The electricity market in North Macedonia reflects a mixed structure, with state dominance in generation and transmission and ongoing challenges in efficiency and cost management. The electricity market operates in both liberalized and regulated segments. State-owned enterprises dominate electricity generation and transmission, while distribution is managed by a private entity. The Energy Law of 2018 liberalized the market, granting consumers the freedom to choose their electricity suppliers. However, about 60 percent of net electricity consumption remains within the regulated market, with tariffs set by the Energy Regulator. State-owned ESM produces 65 percent of total electricity and holds 66 percent of installed capacity. However, the concentration in electricity generation in North Macedonia is lower than in other Western Balkan countries (see Figure 2). ESM's operations include coal, hydropower, and other renewable facilities. Persistent issues, such as inefficiencies in coal-fired plants and low water reserves for hydropower in certain years, have led to declining generation capacity, reaching a low in 2021. Although production increased in 2022 and 2023, rising production costs continue to strain ESM.

[1] Prepared by Faton Sulejmani.

Annex VI. Figure 2. North Macedonia: Share of the Largest Electricity Generation Company in the Region

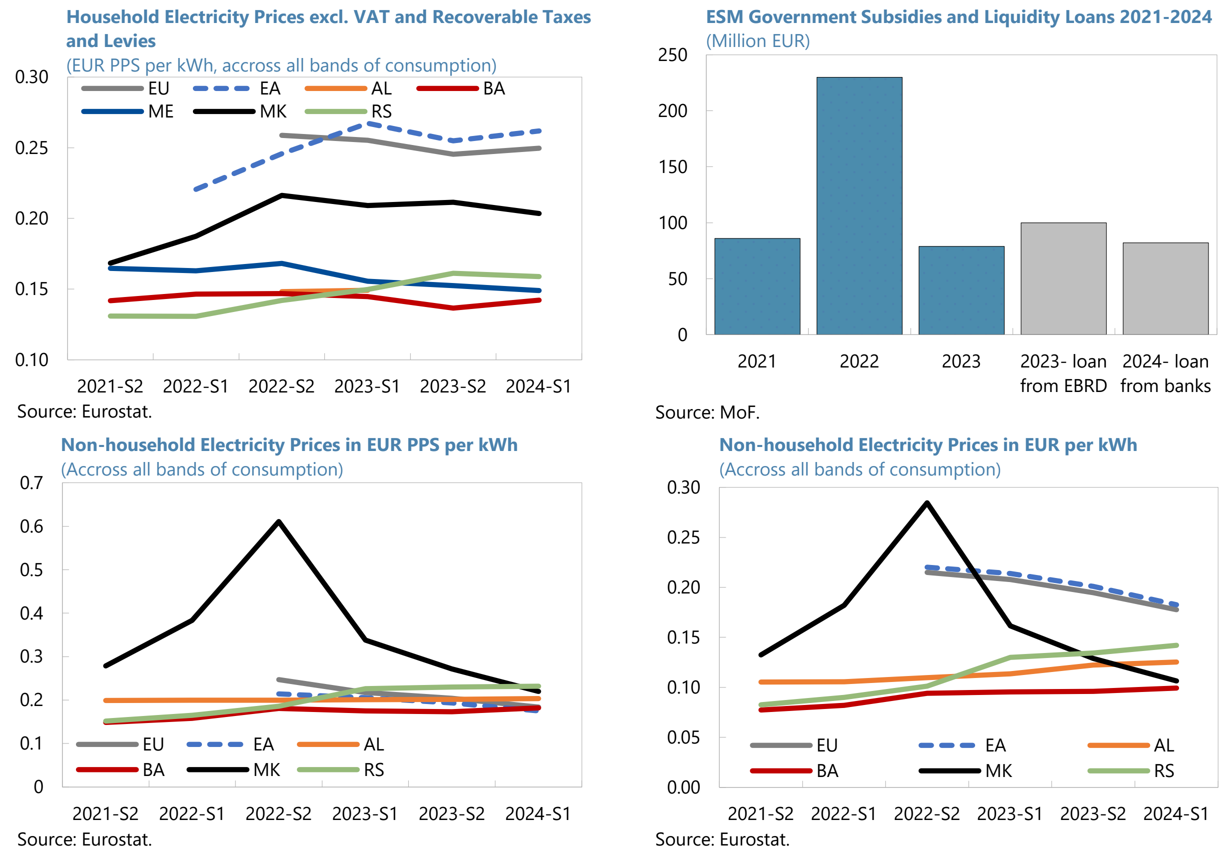


Note: BA has three electricity generation companies on federal level.
Sources: Eurostat and MK ERC.

3. **Adjusted for purchasing power household electricity prices in North Macedonia are the highest in the region, while non-household prices have come down from the peak during energy crisis.** Large subsidies to ESM have been introduced to mitigate price hikes in the regulated market, yet electricity spending remains disproportionately high compared to the Euro area (see Figure 3). Electricity spending constitutes a substantial portion of households' expenses, with the Electricity CPI weight being higher than the Euro area average. Meanwhile, small companies in the regulated market face higher electricity costs than households, while non-households consumers in the liberalized market bear full price fluctuations. During the peak of energy crisis in late 2022, non-household electricity prices were 30 percent higher than the Euro area average and three times the regional average in euro terms (see Figure 3). Recent declines have brought prices in North Macedonia closer to regional averages.

4. **The energy crisis exposed long-standing structural vulnerabilities and inefficiencies within ESM's, prompting substantial government subsidies.** To mitigate the impacts of the European energy crisis, the government mandated that ESM supply 100 percent of the regulated market, exceeding the rates established by the 2018 Energy Law, at prices below cost recovery and market rates, exacerbating financial pressures. Low generation levels, related to issues with coal-fired power plants, compelled the company to purchase electricity at elevated prices to meet its regulated market obligations, while its production was hindered by inefficiencies and increasing costs. Factors such as reliance on outdated technology, inadequate maintenance, depletion of domestic inputs leading to costly imports, lack of investment in renewable energy, and governance issues contributed to these challenges. This resulted in significant subsidies, with ESM receiving around 400 million euros of transfers from the Government during the crisis (2021–23) (see Figure 3).

Annex VI. Figure 3. North Macedonia: Government Subsidies, Household, and Non-Household Electricity Prices



5. To phase out subsidies, several price increases were implemented under the PLL; however, their effectiveness has been limited by continued increases in ESM's production costs due to inefficient operation. The previous government and the PLL aimed to reduce energy subsidies through increasing household prices and reducing ESM's share in the regulated market. ESM's price for supplying the regulated market has risen approximately 70 percent from June 2021 to December 2024, with an 11 percent increase from December 2022 to December 2024 under the PLL. Additionally, prices for covering distribution losses have also been raised. Block tariffs with higher price for marginal consumption were introduced to encourage energy savings, and there is intention to reduce the mandated supply rate for the regulated market in the medium term. However, ESM's production costs have continued rising as unforeseen increases in production inefficiency and management issues emerged, which partially offset the above efforts and necessitated additional government guaranteed liquidity support credit lines worth €182 million in 2023–24. The new Management of ESM has outlined an ambitious plan aimed at reducing costs and increasing generation, which would enable ESM to profit from sales in the free market to offset the losses from fulfilling its regulated market commitments. This plan appears optimistic and is fraught with risks, as aforementioned structural issues within the ESM, including outdated capacities, depleting domestic input reserves, and increased reliance on costly and volatile imports, could weigh on production expansion in 2025. Nevertheless, some limited progress has been made by the new management on improving governance practices, lowering costs of inputs, and enhancing maintenance and mining.

6. Addressing the challenges in the energy market requires a holistic approach to phase out government subsidies, reduce energy costs and prioritize a large-scale shift to renewable generation. Following the energy crisis, private investments in electricity generation (most notably PVs), including from small producers and prosumers, have accelerated and been at the forefront of new investments in renewables. There is interest in further private investments, and discussions are ongoing at the government level with foreign investors in renewable energy sources, including major investments in wind parks and PVs. However, ESM will remain at the center of electricity market reforms in the foreseeable future given its sheer weight in domestic production, as private participation still takes time to foster. ESM urgently needs efficiency improvements, technology upgrades and maintenance to curb sharply increasing production costs. Sound governance and transparency practices should be implemented in the context of broader SOE reforms. Additionally, programs to support vulnerable groups should be streamlined and revised to ensure adequate protection for those in need, while efficiency gains in distribution could also help mitigate financial impact of raising tariffs on end-consumers by reducing the relatively high network losses by international standards. A transition to renewable energy is crucial for reducing energy costs. The transition needs substantial investments from both the public and private sectors in new renewable generation capacities and grid upgrades to ensure compatibility, alongside the foreseen decommissioning of outdated, inefficient polluting coal-fired power plants in the strategy. While this shift will impose significant medium-term costs on ESM due to investment requirements, it should result in more efficient generation over the long term, driven by the lower generation costs associated with renewable energy, thereby addressing challenges posed by aging infrastructure.

Annex VII. Digitalization of Public Finance in North Macedonia[1]

1. Digitalization offers a transformative opportunity for governments around the world to enhance their public finance operations and improve service delivery. The government of North Macedonia has recognized the significance of this shift, prioritizing digitalization of public services through various initiatives in the context of digital transformation of the whole society. This annex explores the current state of digitalization in North Macedonia, the potential gains and challenges it faces, and the strategies to foster a robust digital environment in public finance.

2. Digital transformation, including on government services, is a priority of the new government. The new government's program published in June 2024 emphasizes the importance of information and communication technology (ICT) and service delivery reforms. The establishment of the Ministry of Digital Transformation (MDT) marked a significant step forward in spearheading digital initiatives for the whole country. Additionally, the Public Administration Reform Strategy (2023–30) directs the digitalization of public services, while the Public Revenue Office's (PRO) Strategic Plan (2025–27) incorporates digital transformation as a key component.

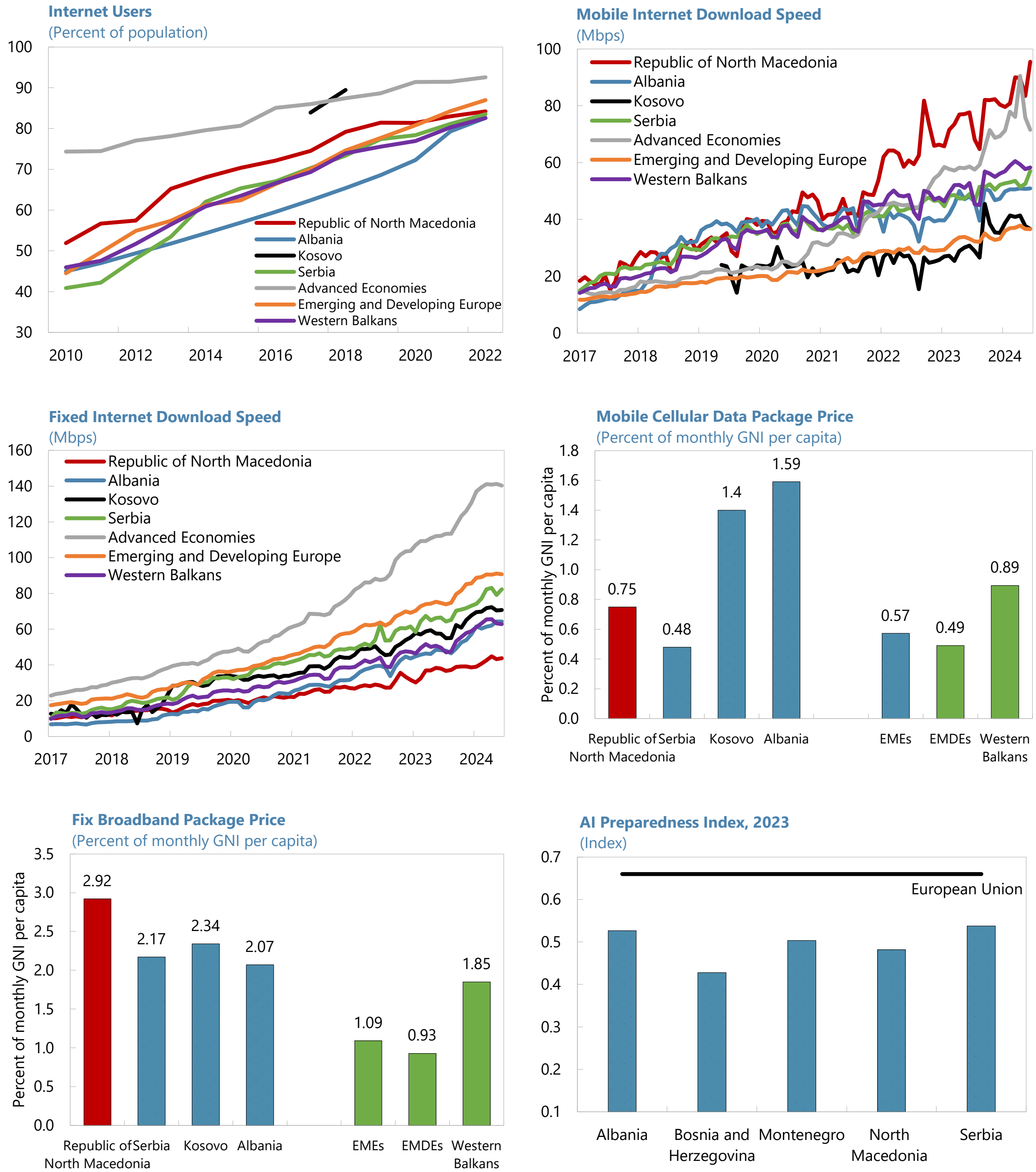
3. North Macedonia has made strides in its digital infrastructure, with internet access levels comparable to those in the Western Balkans, though still lower than emerging economy averages and EU. Fixed broadband subscription per 100 habitant is in line with the Western Balkans, while mobile broadband is among the lowest in the region (figure 1). Mobile internet is faster than peers and costs less, while fixed connection is the slowest and costs higher than the region. The country's preparedness for artificial intelligence (AI) aligns with regional levels but continues to lag the EU.

4. Government adoption of digitalization is somewhat below emerging and developing Europe. The World Bank's GovTech Maturity Index (GTMI) places North Macedonia among the lowest in the region, and somewhat below emerging market averages (figure 2). There is a noticeable gap on the GovTech Enablers Index (GTEI), which captures strategy, institutions, and regulations, as well as digital skills and innovation programs. Recent assessment by Sigma/OECD has indicated low scores in digital readiness and tools by the government, with the latest eGovernment Benchmark placing North Macedonia 37th out of 39 European countries, highlighting noticeable gaps in service functionality, legislative support, and the availability of electronic identification, especially compared to the EU.[2]

[1] Prepared by Yuan Xiao with support from Mona Wang.

[2] OECD (2025). Public Administration in the Republic of North Macedonia 2024: Assessment against the Principles of Public Administration, SIGMA Monitoring Reports, OECD Publishing, Paris.

Annex VII. Figure 1. North Macedonia: Internet Accessibility and Affordability

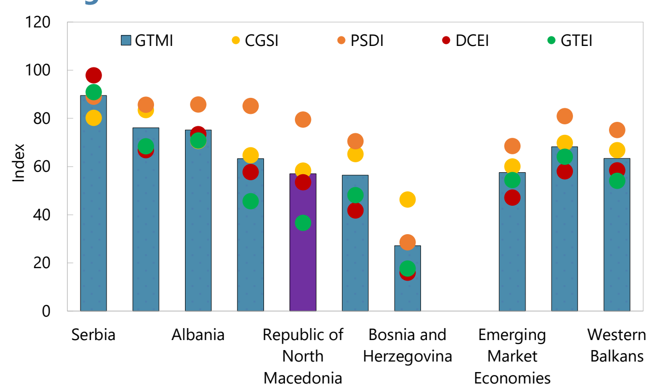


Sources: ITU, Ookla, Kosovo internet subscription data received from ARKEP, and IMF staff calculations.
Note: Population-weighted averages are used for regional/group aggregates.

5. **Digitalization can help to reduce the sizeable shadow economy and strengthen tax collection efficiency, which have prevented the country from realizing its tax potential.** The tax potential in North Macedonia is estimated at 22–24 percent of GDP (compared to the current

level of 18–19 percent); however, the shadow economy poses significant challenges, constituting approximately 30 percent of GDP. Fighting against the shadow economy is a priority in the PRO's Strategic Plan for 2025–27. The actions include improving the process of early detection of incorrectly reported tax, advanced risk analysis and targeted and more effective audits, strengthening the tax audit program, and enhancing enforcement and sanction measures against the shadow economy. Digital transformation will play a key role in reducing the shadow economy and increasing compliance, which envisages the consolidation of PRO's electronic tax (E-PRO), improving the PRO's analytical capacity platform, e.g., through e-invoicing and digital devices, and strengthening the reliability, security, and sustainability of PRO's IT system.

Annex VII. Figure 2. North Macedonia: GovTech Maturity Index



Source: World Bank.

Note: GTMI (GovTech Maturity Index) is the simple average of the following four components: CGSI = Core Government Systems Index, capturing the key aspects of a whole-of-government approach; PSDI = Public Service Delivery Index, presenting the state of online portals, e-filing services, e-payments; DCEI = Digital Citizen Engagement Index, measuring aspects of public participation platforms, citizen feedback, and open gov/data portals; GTEI = GovTech Enablers Index, capturing strategy, institutions, and regulations, as well as digital skills and innovation programs. Each of the component index is calculated as weighted average of scores from relevant questions from Central Government GTMI survey. More info on GTMI survey can be found at: https://www.worldbank.org/en/data/interactive/2022/10/21/govtech-maturity-index-gtmi-data-dashboard.

6. **E-invoicing emerges as a promising solution to combat the shadow economy, with substantial revenue mobilization potential.** While E-filing is already ubiquitous in North Macedonia, the Public Revenue Office (PRO) has just launched an e-invoicing project, which has shown to be an effective mechanism to help reduce the shadow economy. An IMF review of Peru's e-invoice adoption finds that it increased reported sales, purchases, and value-added by over 5 percent in the first year.[3] Cross country evidence suggests that the adoption of e-invoicing and electronic fiscal devices can improve revenue mobilization by 0.7 percent and 0.5 percent of GDP, respectively.[4] Importantly, their effects depend on the type of tax (more effective for VAT and corporate income tax) and on the availability of complementary human and physical resources—

[3] Bellon, et al (2019). Digitalization to Improve Tax Compliance: Evidence from VAT e-Invoicing in Peru. IMF Working Paper 19/231. International Monetary Fund, Washington D.C.

[4] Amaglobeli, et al (2023). Transforming Public Finance through GovTech. Staff Discussion Note SDN2023/004. International Monetary Fund, Washington D.C.

enhanced by expanding digital connectivity and ensuring sufficient staffing and expertise among tax officials.

7. However, International best practice suggests that addressing the shadow economy requires a whole-of-government response and the gains could take time to realize.[5] The shadow economy manifests in different types of transactions, including unregistered operators, incorrect payroll practices affecting minimum wage laws, social security, and health benefits, as well as revenue implications from cross-border transactions involving low-value imports and digital services. These are under the jurisdiction of various agencies—such as tax administration, the market inspectorate, and customs, and require coordinated efforts in information sharing and enforcement. Support of the Ministry of Finance is also required to introduce legislative changes that facilitate information exchange and remove other impediments.

8. Digitalization has the potential to enhance transparency and efficiency within the public financial management (PFM) framework. Cross country evidence suggests that the automation of budget payments using digital technologies is associated with more budget transparency and supports efforts to combat corruption and mismanagement.[6] North Macedonia is introducing an Integrated Financial Management Information System (IFMIS) under the Organic Budget Law, which is critical for accelerating the improvement in fiscal transparency and the efficiency of public investment through systematic registration of capital projects and better management of capital budgets throughout the project cycle. To bridge the time until an IFMIS is available, authorities have started implementing a public investment management information system with the support from FAD to capture and analyze key information of public infrastructure projects.

9. The usage of the government's service platforms has increased, but their functions and reach can be expanded. According to the UNDP, there is a mixed perception of digital public service effectiveness in North Macedonia. Only 24 percent and 22 percent of the survey respondents regard the central government's and the municipal governments' use of digital technology as effective, respectively.[7] There is still a very low usage of public digital service platforms: 16, 29, and 55 percent of survey respondents have used, not heard of, or not used the e-Uslugi platform—the central government's service portal despite tripling of the users in the last three years. The usage of municipal online service is even lower. Both the UNDP and OECD notice that the coverage of the e-Uslugi platform is still limited, with a clear demand for additional services such as tax payment, civil registry, and vehicle registration. There is not enough centralized standard setting coordination and quality control. The users would also like the platform to be made for easier use.

[5] Hardy (2024). IMF Fiscal Affairs Department CD report on tax administration in North Macedonia.

[6] Amaglobeli, et al. (2023).

[7] UNDP (2024). Digital Readiness Assessment: North Macedonia.

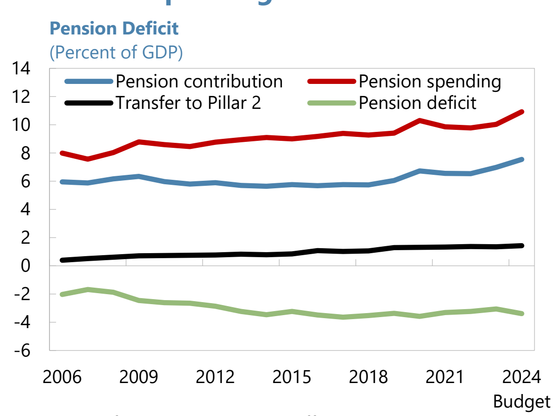
Annex VIII. Medium Term Fiscal Challenges in Pension System—Transition Cost, Migration, and Policies[1]

1. North Macedonia's three-pillar pension system, including a mandatory second pillar, remains costly to the government budget due to an imbalance between contributions and pension spending. The pension system in North Macedonia functions on three pillars: 1) the State Pension Fund (pay-as you-go), 2) a fully funded mandatory fund, and 3) a fully funded voluntary fund. The first pillar pension fund services currently around 340 thousand pensioners. A major reform aiming at improving the long-term sustainability of the pension fund was implemented in 2006 with the introduction of the fully funded mandatory second pillar which was also accompanied by an increase in the retirement age; the third voluntary pillar was launched in 2009. The transition has created an imbalance as any new contributor into the system starting in 2006 would have to contribute to both the first and second pillars while most retirees in the foreseeable future are still covered by Pillar I. With the entrance into force of the law for Social Security in 2019, a "social pension" was introduced in the form of means-tested benefit for people over 65 years.

A. Recent Trends and International Comparisons

2. Pension spending from the government budget has increased over the last two decades, ranking high by international comparison, while the pension deficit has widened. Pension spending (including both benefits and transfers to Pillar II fund) has been increasing as a share of GDP, from 8 percent in 2006 to around 11 percent of GDP in the 2024 budget (or one-third of current spending). Contribution has grown as well, although with a slower pace, from 6 percent to 7.5 percent. Moreover, pension spending in North Macedonia ranks among the highest in the Western Balkan region. Although pension spending does not exceed EU average, it is above many member countries (see figure 2).

Annex VIII. Figure 1. North Macedonia: Pension Spending and Deficit



Sources: MoF fiscal tables and IMF staff calculations.

[1] Prepared by Faton Sulejmani and Yuan Xiao.

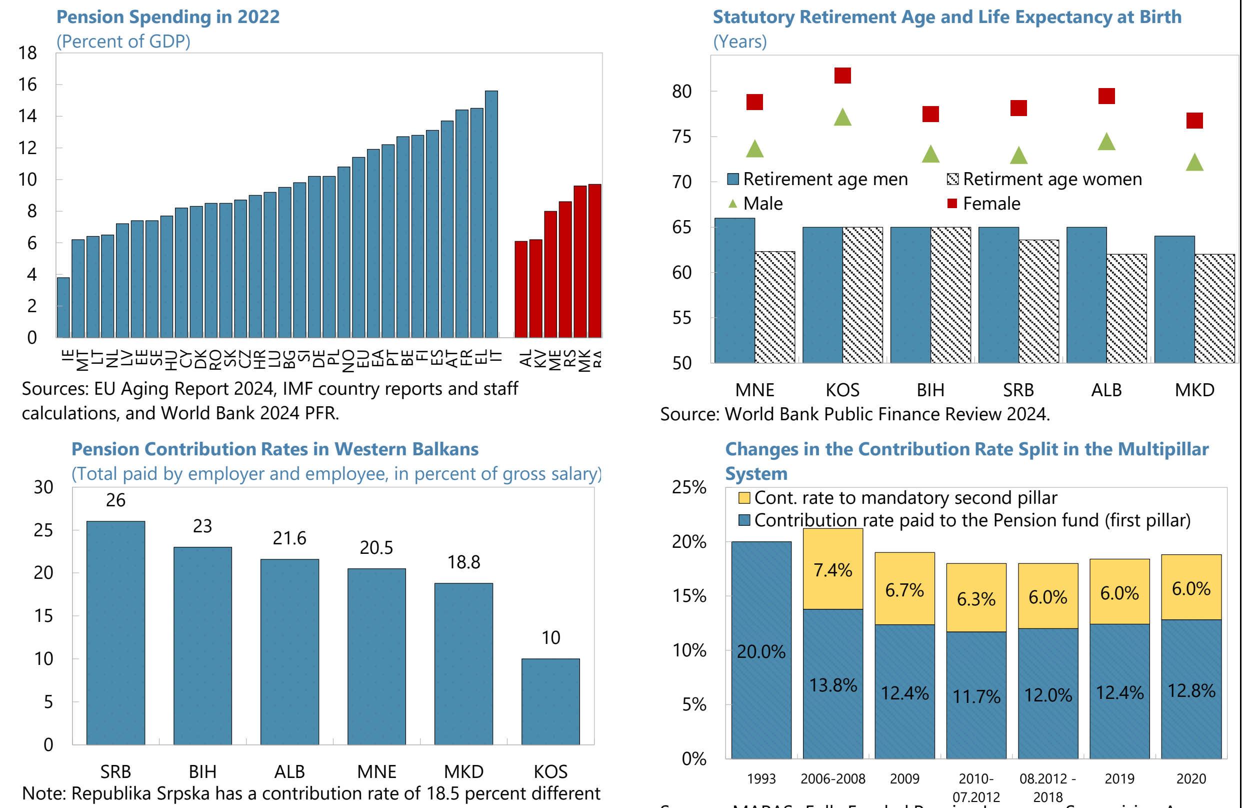
3. The widening pension deficit is driven by the diversion of contributions away from Pillar I to the second pillar, a trend which will continue until the transition is complete. Formerly under the old regime the whole pension contribution was for Pillar I. After 2006, the part of the pension contribution that is designated for Pillar II (currently 12.8 percent of a new employee's wage is contributing to Pillar I while 6 percent is contributing to Pillar II) is transferred to the second pillar fund, which is also called the "transition cost." This has resulted in a gap between Pillar I contributions and pension benefit spending which is financed by the government budget, as almost all current retirees are single pillar participants. The transition cost has been steadily increasing since 2006 as the share of multi pillar participants in the pool of contributors grows, reaching around 1.4 percent of GDP in 2024. It has contributed to the widening of the pension deficit (which is the difference between total pension contributions and total pension spending) from around 2 percent in 2006 to 3.5 percent of GDP in the 2024 budget (see figure 1). The transition cost is projected to rise gradually to 2.4 percent of GDP before the old regime eventually disappears around 2050, as most of future retirees in the next two decades are expected to remain under the single pillar regime.

4. North Macedonia has the lowest statutory retirement ages and life expectancy in the region, coupled with relatively generous benefits. The pension system is relatively generous: theoretical replacement rate and gross benefit ratio exceed those of other Western Balkan countries, although both remain below the EU average (see Figure 2 from the World Bank's Social Protection Situational Analysis report, 2023).[2] The retirement age is set at 64 for men and 62 for women. Some Western Balkan countries, such as Kosovo, Serbia and the Federation of Bosnia and Herzegovina, have higher retirement ages for both genders, while others have higher retirement ages for men. Notably, life expectancy at birth varies across the region, with North Macedonia ranking the lowest—which would be a factor for consideration in future reforms (see Figure 2).

5. North Macedonia's pension contribution rate is one of the lowest in the region, with rate cuts exacerbating imbalances. The contribution rate is currently at 18.8 percent, with 12.8 percent going to the first pillar and 6 percent transferred to the second pillar. North Macedonia ranks among the lowest relative to other Western Balkan countries in terms of contribution rates. The contribution rate has been lowered over time with slight increases in 2019 and 2020, which has worsened the financial health of the system in the face of rising transition costs, notwithstanding cuts in contributions to the second pillar (see figure 2).

[2] Theoretical replacement rate represents share of the average earner's pension in the average wage for 40 years of service. Gross benefit ratio represents share of current gross pension to gross average wage.

Annex VIII. Figure 2. North Macedonia: International Comparison of Pension Spending and Parameters



Sources: EU Aging Report 2024, IMF country reports and staff calculations, and World Bank 2024 PFR.

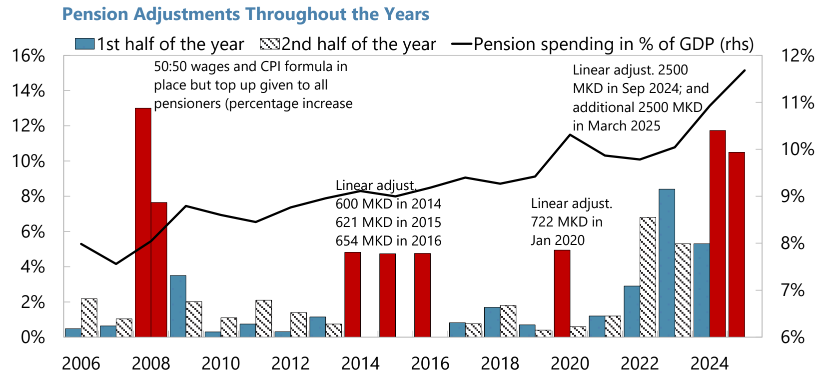
Source: World Bank Public Finance Review 2024.

Note: Republika Srpska has a contribution rate of 18.5 percent different from Federation B&H.
Source: World Bank's Country pension notes.

Sources: MAPAS- Fully Funded Pension Insurance Supervision Agency, Pension fund.

6. **The formula-based pension adjustment system has frequently been disrupted by costly ad-hoc adjustments.** The formula-based adjustment is implemented twice a year, indexing to wage and CPI increases with equal weights. Although intended to provide predictable pension adjustments, this system has faced multiple interruptions due to top-ups and/or across-the-board increases for all pensioners, often coinciding with pre-election periods (see Figure 3, where red bars indicate deviations from the established rule). These disruptions have undermined the system's integrity and eroded the link between contributions and benefits. The costly nature of these top-ups is evident in the significant spikes in pension spending. The latest decision to implement a flat across-the-board pension increase of 5,000 MKD in two installments (September 2024 and March 2025) is the most substantial, anticipated to result in a 25 percent increase in the average monthly pension—a real increase of 20 percent and significantly above wage growth.

Annex VIII. Figure 3. North Macedonia: Pension Adjustments and Deviations From the Rule

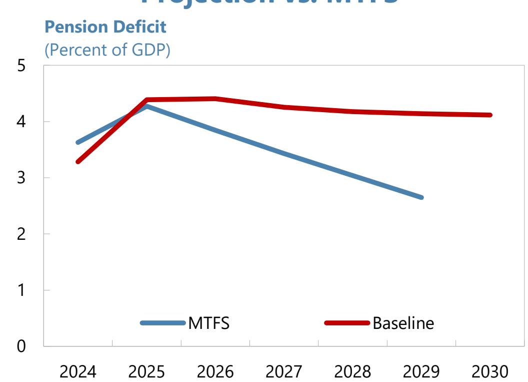


Sources: Pension fund and IMF staff calculations.

B. Medium Term Outlook, Risks, and Reform Priorities

7. The pension deficit is projected to remain elevated, in contrast to the path assumed in the Medium Term Fiscal Strategy. Baseline medium term projections are constructed for the paths of pension contributions (Pillar I and II), pension spending (benefits and transition cost), and the pension deficit from a macro model based on macroeconomic trends, demographic factors (such as population, employment, migration, and mortality), and pension policies, and compared to the MTFS. The MTFS guides the government's policies for fiscal consolidation for 2025–29 and it is important that the pension projections, accounting for one-third of government current spending, are realistic. The UN medium variant scenario is used in the baseline, which reflects the recent trend in migration (see para 9). Following the MTFS, it is assumed that the indexation formula will resume in September 2025, although there is considerable uncertainty regarding the government's plan. The pension deficit is projected by staff to hover between 4 to 4½ percent of GDP in the medium term, in contrast to the path underlying the MTFS, which assumes that the pension deficit will decline sharply (Figure 4).

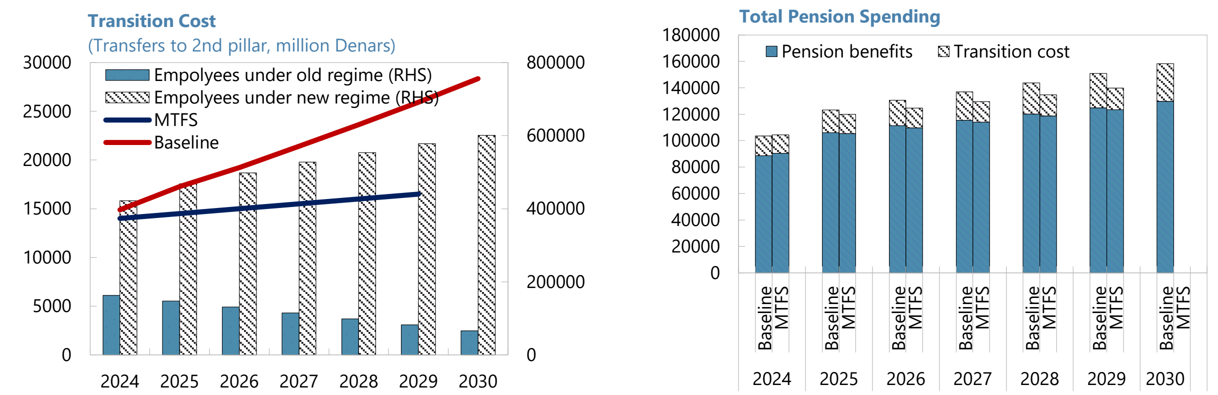
Annex VIII. Figure 4. North Macedonia: Baseline Projection vs. MTFS



Source: IMF staff calculations.

8. The MTFS significantly underestimates the transition cost, which results in a similar underestimation of total pension spending. Pension benefits are projected to rise, driven both by the increase in the beneficiaries and pension adjustments. Moreover, as it is mandatory that all new employees contribute to the multi-pillar regime, its contribution base will continue to grow over time while the base of the old single-pillar regime will shrink rapidly as workers retire (Figure 5). As a result, contributions to Pillar II (and the associated transfer from the budget) will proportionally increase along with the total wages of the employees under the multi-pillar regime. By contrast, the MTFS assumes a moderate linear increase in each year's transition cost, which is inconsistent with wage and employment growth. This contributes to underestimated pension spending and deficit in the medium term.

Annex VIII. Figure 5. North Macedonia: Transition Cost



Source: IMF staff calculations.

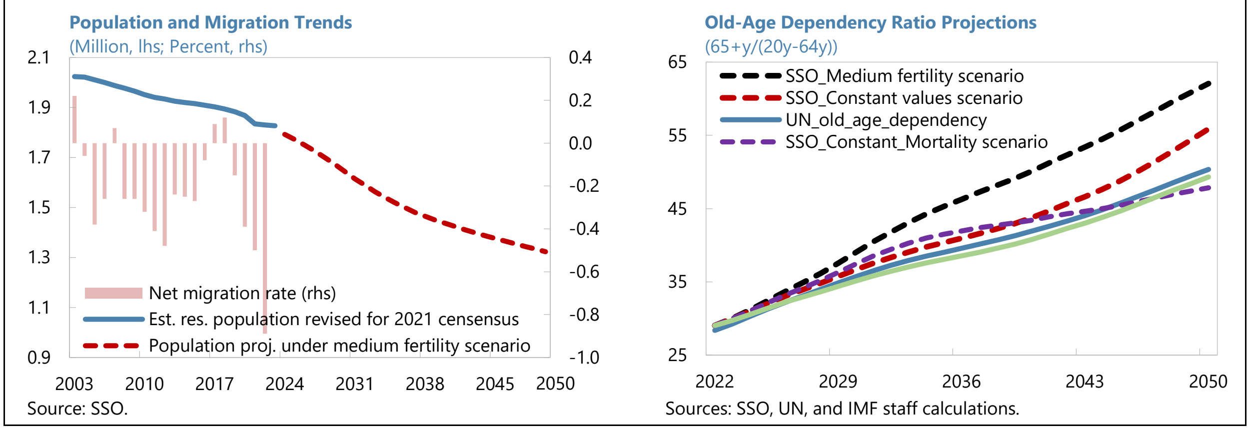
Source: IMF staff calculations.

9. An ageing population and rising migration pose a serious challenge to North Macedonia's labor supply and the old age dependency ratio (see also Annex VI). The country has witnessed accelerated emigration since the early 2000s, driven by higher wages and labor demand in the EU. Combined with an ageing population, the State Statistics Office (SSO) estimates that North Macedonia's population declined from 2.02 million in 2003 to 1.83 million in 2023, and the trend is projected to continue (Figure 6). As emigration is dominated by working age labors seeking better opportunities, it poses a significant pressure on the old age dependency ratio in the country, especially in the long run. The gap in the old age dependency ratio (the number of people aged 65 and older as a ratio to the working age population) between a more benign demographic scenario considered by the SSO and the most severe adverse scenario could reach 4 percent in 2030 and 13 percent in 2050.

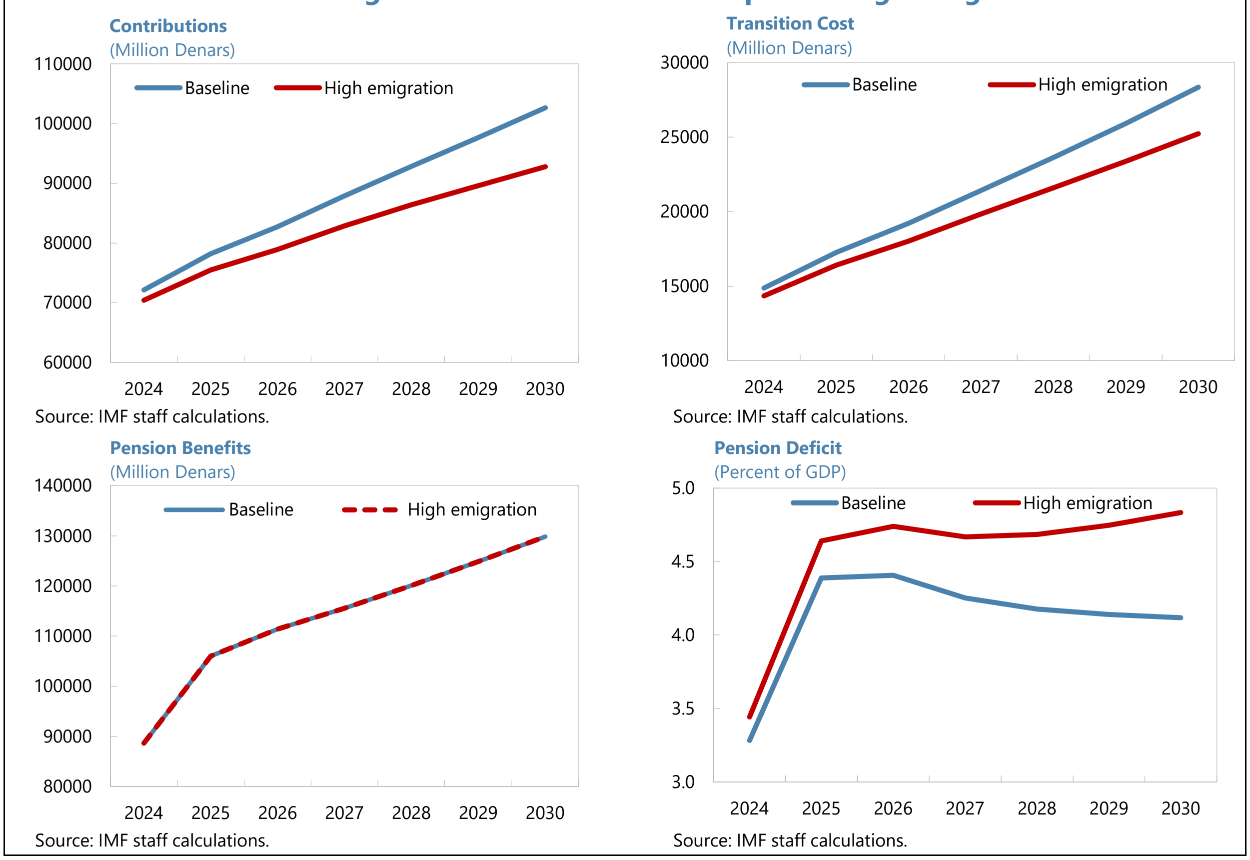
10. Demographic risks, if realized, could adversely impact the pension system in the medium term. In the medium term, it is emigration rather than population ageing that drives the old age dependency ratio higher. A comparison can be made between the baseline scenario (with a projected population of 1.76 million in 2030) and an adverse demographic scenario (with a population of 1.64 million in 2030) which corresponds broadly to the worst scenario considered by the SSO. In both scenarios, spending on pension benefits remains the same as it is assumed migration mainly affects the younger population. The adverse scenario has a lower level of employment, which contributes to lower pension contributions (including contributions to Pillar II—

the transition cost). As a result, the pension deficit is estimated to worsen from 4.1 to 4.8 percent of GDP by 2030 (Figure 7). The presence of such demographic risks highlights the need for medium fiscal consolidation and building fiscal buffers.

Annex VIII. Figure 6. North Macedonia: Demographic Risks



Annex VIII. Figure 7. North Macedonia: Impact of High Emigration



11. **Credible medium-term fiscal consolidation requires more realistic pension projections in the MTFS and measures to curb pension growth.** The MTFS and the fiscal budget need to fully account for the transition cost based on realistic projections. Staff's baseline projection of an

elevated pension deficit path suggests that the targets in the MTFS are unachievable unless additional consolidation measures are required. Pension spending is one of the largest outlays in the budget and has increased rapidly in recent years. In the near term, there is room for taking measures to slow down pension increases—such as less generous indexation—given that benefits are already comparing favorably relative to peers. Using the projection model, Table 1 presents simulated fiscal savings from several candidate measures through their impacts on pension contributions and pension spending. These figures are for illustrative purposes—the actual measures should be calibrated and phased in according to the fiscal consolidation needs and the plan for structural pension reform, with updated macroeconomic assumptions.

Annex VIII. Table 1. North Macedonia: Fiscal Savings from Possible Measures
(Percent of GDP, relative to baseline)

Measure	2026	2027	2028	2029	2030
(i) Index benefits to CPI inflation for 2026–30	0.2	0.2	0.3	0.4	0.5
(ii) Increase contribution rate to Pillar I by 0.5 percentage point in 2026	0.2	0.2	0.2	0.2	0.2

12. Moreover, structural pension reforms are essential to fundamentally improve the sustainability of the system. With chronic delays in implementing much needed parametric reforms and periodic ad hoc benefit increases, the sustainability of North Macedonia's pension system is severely eroded. In light of mounting long-term demographic pressures, it is paramount that, with the technical support of international organizations, the government make a comprehensive diagnosis of the risks and reignite pension reforms. The priorities include: (i) a sustainable rule-based pension adjustment system and avoiding top-ups; (ii) raising pension contribution rates while boosting compliance; (iii) Equalizing the retirement age for men and women; and (iv) taking measures to increase labor force participation.

Annex IX. Implementation of Article IV and FSAP Recommendations

Annex IX. Table 1. North Macedonia: Implementation of Article IV Recommendations	
Key Recommendations	**Implementation Status**
Fiscal Policy	
Fiscal consolidation is needed to comply with fiscal rules and to build buffers	
• A fiscal deficit of 3.4 percent of GDP in 2024 and further fiscal consolidation in compliance with fiscal rules. Contain current spending in 2024 through reductions in energy subsidies and target management on wages and salaries - to allow for a more generous capital spending envelope (road project).	• **Not implemented.** A supplementary budget was adopted after the elections to allocate new spending and underbudgeted commitments. The deficit reached 4.4 percent of GDP in 2024.
• Build fiscal buffers to address global uncertainties and potential cost overruns for major projects.	• **Not implemented.** A Medium Term Fiscal Strategy was adopted in October 2024 which included a consolidation path. However, the 2025 budget is projected to exceed the fiscal target.
• Limit public wage increases in the next year and medium-term, not exceeding agreements established in the general collective agreement (GCA).	• **Not implemented.** The wage negotiation system remains fragmented with individual wage agreements granting higher wage increases than the GCA.
Accelerate reforms on public investment management and tax compliance to improve efficiency	
• Continue staffing the Public Investment Management to its full capacity.	• **Implemented.**
• Strengthen methodologies for the identification and costing of projects to enhance public investment efficiency.	• **Some progress.** The PIM Decree and Manual have been prepared in late 2023, but have not yet been adopted or implemented.
• Increase tax compliance to improve the fiscal position and ensure a competitive playing field in the economy.	• **Implemented**. The Public Revenue Office took a number of measures.
• Accelerate reform efforts within the Public Revenue Office.	• **Implemented.** A new Public Revenue Office Strategic Plan 2023–28 was adopted.
• Appoint the Fiscal Council, expected to become fully operational in 2024, to improve fiscal governance	• **Implemented.**
Targeted transfer to vulnerable households on account of the energy measures	
• Expanding Government programs for energy-related targeted transfers to vulnerable households, as broad-based subsidies are lowered.	• **Some progress.** The government is making progress with World Bank support.

Annex IX. Table 1. North Macedonia: Implementation of Article IV Recommendations (continued)

Key Recommendations	Implementation Status
Monetary Policy	
• NBRNM should maintain a tight monetary policy stance to manage inflation risks, remaining ready to tighten further if necessary.	• **Implemented.** NBRNM maintained the main policy rate until September 2024, when it initiated rate cuts primarily in the main policy rate, following the ECB's easing.
• Approve amendments to the central bank law that preserve the operational autonomy, including additional recommendations from the IMF safeguard report.	• **Some progress.** Amendments to the NBRNM law were adopted in March, granting the NBRNM the formal macroprudential and bank resolution mandate. Additional amendments approved by Parliament in January 2025 without consultation with the NBRNM reversed provisions on profit retention recommended by the IMF safeguard report which had been adopted in March 2024.
• NBRNM should strengthen the monetary transmission mechanism by upgrading the monetary operations framework, including by narrowing the interest corridor, reducing the maturity of CB-bills and improving the auction system for central bank bills.	• **Some progress.** NBRNM has prepared an internal road map and has continued to work internally on transition strategies. It has used the easing cycle to narrow the interest rate corridor by cutting rates asymmetrically.
• Foster denarization to improve monetary transmission	• **Some progress.** NBRNM has increased the denar reserve requirement from 5 to 8 percent and maintained the foreign currency reserve requirement at 21 percent.
Financial sector	
Enhance bank-risk monitoring and align supervision regulation with the EBA standards	
• Continue enhancing bank-risk monitoring and aligning supervision regulations with EBA standards, transpose EBA standards into the domestic banking system to improve supervision.	• **Some progress.** A new banking law to comply with European directives (CRD VI) expected to be sent to Parliament in July. The legal framework for payments and payment systems has been aligned with EU regulations, enabling official membership in the Single Euro Payments Area (SEPA).
• Further develop bank bottom-up stress tests to strengthen risk assessment.	• **Some progress.** The national bank has continued to improve individual stress testing, to incorporate specifics of each bank and its clients.
• Closely monitor the mortgage market, systemic banks, and Non-Bank Financial Institutions (NBFIs).	• **Implemented.** The NBRNM is closely monitoring the mortgage market, systemic banks and NBFIs (some NBFIs are regulated by the Ministry of Finance).

Annex IX. Table 1. North Macedonia: Implementation of Article IV Recommendations (continued)

Key Recommendations	Implementation Status
• Advance efforts to address the main AML/CFT deficiencies identified in the recent MONEYVAL Mutual Evaluation Report.	• **Implemented.** Amendments to the AML/CFT Law were adopted in October 2024, addressing the deficiencies identified in the MONEYVAL report, while also ensuring compliance with European directives for accession to SEPA (Single Euro Payments Area).
Improve enforcement of macroprudential and resolution frameworks	
• Further tighten capital requirements in light of high bank profitability.	• **Implemented.** The Countercyclical Capital Buffer (CCyB) rate will gradually increase from 0.75% to 1.75% between January 1, 2024, and March 31, 2026.
• Prioritize upgrading the deposit insurance law	• **Some progress.** The law on deposit insurance is nearly complete, with finalization and adoption expected this year.
Maintaining central bank operational independence	
• NBRNM staff should be excluded from the law on public sector employees and the law on administrative servants	• **Some progress.** NBRNM employees are explicitly excluded from the scope of The Draft-Law on Administrative Servants but not mentioned in the Draft-Law on Public Sector Employees, which could potentially impair the functional autonomy of the NBRNM. The draft laws were re-submitted for public consultations.
• To ensure timely decisions and preserve the operational autonomy, operational supervisory decisions should be taken by the executive part of the NBRNM Council (not the full Council)	• **Implemented.** With the amendments from March 2024, NBRNM established an Executive Board (EB) as a collegial decision-making body, composed of the governor and the three vice-governors, as one of NBRNM's governing bodies. The Governor's mandate for issuing/revoking licenses and consents for financial institutions, taking measures against banks and other financial institutions as well as against payment institutions, electronic money institutions and payment system operators that are subject to supervision, has been transferred to the EB.
Structural	
Accelerate structural reforms to boost productivity and arrest migration	
• Accelerate structural reforms to lift living standards and lay the foundation for sustained growth and EU accession.	• **Not Implemented.** The National Development Strategy and the Reform Agenda supported by the EU have been adopted, though reform implementation is yet to gain traction.

Annex IX. Table 1. North Macedonia: Implementation of Article IV Recommendations (concluded)

Key Recommendations	Implementation Status
Improve the business environment and rule of law	
• Reduce informality through a more effective Public Revenue Office and lower bureaucratic delays.	• **Some progress.** The Public Revenue Office has taken efforts to modernize tax collection and reduce informality.
• Reverse the 2023 Criminal Code amendments that weakened the anti-corruption legal framework, especially prosecution of high-level corruption cases.	• **Not implemented.** The Constitutional Court initiated proceedings to assess the constitutionality of the 2023 Criminal Code amendments, the situation has not yet been resolved.
Preserving room in the budget to support public infrastructure and education	
• Preserve recent increases in the capital expenditures budget and improve public investment management to prioritize projects.	• **Some progress.** The government allocated fund for municipality investment projects. However, current spending continued to expand while project prioritization is postponed for the 2027 budget.
Accelerate the green transition and adapt to climate change	
• Scale up green investments to meet emission targets and decommission old power plants.	• **Some progress or not implemented.** The Government has initiated few new investments through ESM in RES based generation such as the wind park Bogdanci and PV parks in Bitola and Oslomej. Private investments in PV have significantly increased.
• Set incentives for energy efficiency and prepare for the EU's Carbon Border Adjustment Mechanism, including considering a carbon tax.	• ESM's offered price to the regulated market has increased, however the Company continues supplying the full needs of the regulated market.
• Ensure effective price signals in the regulated electricity and heating markets.	• New Law on Climate Action is being drafted, whilst the new Law on Energy and Law on Energy efficiency are in their final preparation phases.
• Incorporate emission and resilience objectives in public investment to aid climate mitigation and adaptation.	• To foster greening in the financial sector, the central bank has prepared and published the Medium-Term Climate Change Action Plan for 2023–2025. Additionally, the CB prepared the Guidelines for Managing Climate-Related Risks.
• Continue the greening of the financial sector to support the climate transition.	• In In February 2025, CB extended the measure to reduce reserve requirements for new loans aimed at financing projects to build or expand facilities for domestic renewable electricity production.

Annex IX. Table 2. North Macedonia: Implementation of 2019 FSAP Recommendations

Financial Stability Assessment		
Create a centralized macrofinancial database; collect granular household data.	MT	Decision on borrower based macroprudential instruments (Official gazette 2/23, 96/23 and 193/23) entered into force on July 1st 2023. Based on this regulation as well as on the Credit Registry regulation, starting from July 2023 more granular data on HH are obtained by banks that report to the NB Credit registry on the level of borrower-based indicators, such as DSTI, DTI and LTV. These data are used in the analysis especially to monitor the implementation of the regulation. In 2019 and beginning of 2020, NBRNM initiated amendments to the NBRNM Law in order to create conditions for obtaining data on individual's salary, but it was not accepted and the Law has not been amended.
Improve liquidity reporting to better estimate stable and less stable deposit outflows and prepare for implementation of the liquidity coverage ratio (LCR).	ST	The NBRNM Decision on risk management requires banks to implement an Internal Liquidity Adequacy Assessment Process. Upgraded regulation on liquidity risk management (no. 146/2020), which closely follows Basel III and EU requirements, was adopted in 2020 and entered into force in early 2021. The new regulation requires banks to maintain minimum levels (100 percent) of LCR and to report to the NBRNM at least monthly, and more frequently in periods of liquidity stress.
Monitor and gradually strengthen banks' FX liquidity buffers.	MT	More stringent reporting requirements of liquidity risks (above) will enable closer monitoring of FX liquidity buffers. However, consistent with EU regulations, banks are not required to maintain minimum levels of LCR (of 100 percent) by currency. The NBRNM does not plan to impose a separate minimum ratio for FX positions but is ready to use its regulatory power to limit excessive currency mismatches if observed.
Financial Stability Oversight		
Systemic Risk Oversight and Macroprudential Policies		
Assign the NBRNM a legal macroprudential mandate via primary legislation.	ST	The Financial stability Law (Official gazette of RNM, 173/22)) that entered into force in August 2023, determines the NBRNM macroprudential mandate for the banking sector. In April 2024 amendments to the NBRNM Law were adopted (published in Official gazette of RNM 74/24), that among other, explicitly regulates macroprudential mandate of the National bank i.e. NBRNM task for implementation of the macroprudential policy and for undertaking macroprudential measures for banks and other institutions it licenses. The Executive Board of the NBRNM is engaged with undertaking macroprudential measures, while methodologies for the manner of determination of these measures are defined by a NBRNM Council decisions.

Annex IX. Table 2. North Macedonia: Implementation of 2019 FSAP Recommendations (continued)		
FSAP Recommendations	**Time**	**Authorities' Actions**
Reconstitute the Financial Stability Committee (FSC) as principal domestic coordination body for macroprudential policy and crisis management.	MT	The Financial Stability Law (Official gazette of RNM, 173/22) formalizes the FSC as an inter-institutional body (It includes all financial regulators) responsible for monitoring the implementation of macroprudential policy in the RNM and for coordinating activities when identifying and monitoring systemic risks in certain segments of the financial system, when taking macroprudential measures and when preparing for and managing financial crises. The Committee aims to contribute to achieving and maintaining financial stability in the country as determined by the Law. The FSC meets regulary (semiannually), while two subcommittees (for Monitoring of systemic risks and suggesting macroprudential measures and for Crisis management) meet quarterly.
Further develop the systemic risk monitoring framework.	ST	In April 2023, the FSC adopted the Strategy on Macroprudential policy that outlines the key risks and monitoring framework. The NBRNM has been deploying CCyB and capital buffer for SIB as well as borrower-based measures such as DSTI, DTI, loan maturity and LTV. Ongoing capacity development (CD) from development partners is helping further strengthen the monitoring framework (e.g., developing monitoring indicators of systemic risks). The NBRNM received IMF CD to strengthen the capacity for bottom-up bank stress tests in 2021 and in 2023 was engaged in discussions with IMF staff for the deployment of macroprudential tools. To enhancement of the macroprudential framework, the NBRNM upgraded its organizational structure by dividing the (former) Department on Financial Stability, Banking Regulation, and Bank Resolution in two separate departments: Department on Financial Stability and Macroprudential Policy and Department on Bank Regulation and Bank Resolution. This allows for a more focused approach to financial stability issues and for adequate development of macroprudential tools and instruments. The new organizational structure was implemented from January 1, 2022. Internal methodologies on Early warning indicators (EWI) and on Composite indicator for systemic (CISS) are in test phase
Financial Stability Oversight		
Banking Supervision		
Enhance the NBRNM's independence by excluding it from the scope of the Law on Administrative Officers; and strengthen governance arrangements.	ST	To strengthen governance arrangements, a separate body was established within the NBRNM in 2018 to deal with issues where there are disagreements between the Governor and supervisory staff as well as all licensing processes. The Amendments to the NBRNM Law, from April 2024 established the Executive Board (EB) as a collegial decision-making body. The EB is composed of the governor and the three vice-governors, as one of NBRNM's governing bodies. The Governor's mandate for issuing/revoking licenses and consents for financial institutions, taking measures against banks and other financial institutions as well as against payment institutions, electronic money institutions and payment system operators that are subject to supervision, has been transferred to the EB. Also, the EB has the authority to conduct monetary and exchange rate policies and take macro-prudential measures.

Annex IX. Table 2. North Macedonia: Implementation of 2019 FSAP Recommendations (continued)

FSAP Recommendations	Time	Authorities' Actions
		On the other hand, the risk of violation of the institutional and financial independence of NBRNM is still present. In December 2024, the new Draft-Laws on Administrative Servants and on Public Sector Employees were published for public discussion. The National bank is explicitly excluded from the scope of The Draft-Law on Administrative Servants and is not mentioned in the Draft-Law on Public Sector Employees, which indicates to a possible collision of the two acts. However, until the changes in the Laws are adopted, we cannot be certain on the treatment of the National bank employees. In January 2023 a draft Law on Public Sector Salaries has been posted for public discussion, that explicitly mentions the wages of the NBRNM's employees as subject of limitations by the Government, which is yet another risk of breach of the NBRNM's independence.
Increase supervisory intensity for domestic systemically important banks (D-SIBs), supported by adequate rise in staffing.	MT	Full-scope inspection of one D-SIB was undertaken in the first half of 2019. Every year since then, at least one D-SIB is subject to a full scope examination and on average 3–4 D-SIBs are included in the annual On-site Examination Plan of the banks. Younger on-site supervisory staff has been recruited in the past 4 years and there is ongoing training process in order to develop the necessary skills and expertise for supervisors.
Financial Markets Infrastructure (FMI) Oversight		
Amend the legal framework to enhance transparency and consistency in FMI identification, regulation, and oversight. Extend NBRNM oversight to all FMIs.	ST	The new Law on Financial Instruments which will be applicable since September 2025, regulates that the Securities Exchange Commission and the National Bank cooperate while performing their oversight tasks. In particular, this cooperation is related to the oversight activities of the National Bank to the cash lag of the securities transactions which are cleared and settled in systems operated by an authorized Depositary. The Law of the National Bank of the Republic of North Macedonia also needs to be amended in line with the latest provisions in the Law on Financial Instruments, which has been initiated by the National Bank with the Ministry of Finance.
Financial Integrity		
Ensure effective implementation of the new Law and National Strategy on AML/CFT and strengthen staffing at the Financial Intelligence Office (FIO).	MT	Amendment of the Law on Prevention of Money Laundering and Financing of Terrorism was published in October 9th, 2024. This Amendment addresses shortcomings in the provisions of the Law identified in the MONEYVAL Report of the fifth round of evaluation in May 2023. It also fully aligns with EU legislation relevant to the prevention of money laundering and terrorist financing (Directive 2018/843), which means improving the prescribed standards, among other things, necessary for the country's accession process to SEPA (Single European Payments Area). North Macedonia is in the process of adoption of 6th National Strategy for Combating Money Laundering and Financing of Terrorism 2025–28 (previously the country was implementing and taking activities according the National Strategy for Combating ML/FT for 2021–24). In October 2023, the National Bank of the Republic of North Macedonia adopted a new Decision on the manner of implementation

Annex IX. Table 2. North Macedonia: Implementation of 2019 FSAP Recommendations (continued)		
FSAP Recommendations	**Time**	**Authorities' Actions**
		of measures for prevention of money laundering and terrorist financing. The Decision was published in the Official Gazette of the Republic of North Macedonia in October 2023. This was a comprehensive Decision that, inter alia, encompasses the all AML/CFT measures and activities that need to be taken by all obliged entities within the supervisory remit of the National Bank (banks, savings houses, payment and e-money institutions and exchange offices). A specific section of the Decision is dedicated to the measures for prevention of terrorist financing and proliferation that need to be undertaken by obliged entities. Staffing at the Financial Intelligence Office (FIO) has increased.
Crisis Management and Resolution		
Finalize draft legislation for a new resolution regime, aligned with international best practices as appropriate to North Macedonia, and strengthen the Deposit Insurance Fund (DIF).	ST	The new Bank Resolution Law has been approved on Oct. 3, 2023, which transposes EU standards, and will be implemented starting from October 13, 2025. The NBRNM received CD for the preparation of the law and its implementation, and will continue its work on developing of the necessary by-laws, as defined in the New Law. The new organizational structure of the NBRNM provides for the establishment of a separate Banking Regulations and Bank Resolution Department, which will be focused on further enhancement of the current banking regulation framework, but also on building adequate resources and capacities for resolution planning and undertaking adequate resolution activities, if needed. NBRNM is in the final phase of adopting all by-laws arising from the bank Resolution Law, as envisaged in this Law. A new law on Deposit Insurance is being drafted by the Ministry of Finance seeking to set a clear transition path to the EU standards. The law is expected to be submitted to parliament by early 2025.
Establish he NBRNM's new resolution unit, develop resolution toolkit, and initiate resolvability assessments and resolution planning for at least all D-SIBs.	MT	As mentioned above, a new Banking Regulations and Bank Resolution Department was established in 2021, which will be responsible for performing the resolution function within the National bank. Even before 2021, there was a separate organizational unit—Financial Stability, Banking Regulations and Bank Resolution that was responsible for capacity building for performing the new function. With the adoption of the Bank Resolution Law, the Banking Regulations and Bank Resolution Department continued to build its capacity, to develop appropriate by-laws (secondary legislation) and toolkits. After the transitional period prescribed in the Bank Resolution Law, the National Bank will develop resolution plans, initiate resolvability assessments, define MREL requirements, etc. These activities will encompass all banks, not just systemically important banks.

Annex IX. Table 2. North Macedonia: Implementation of 2019 FSAP Recommendations (concluded)

FSAP Recommendations	Time	Authorities' Actions
Financial Efficiency and Inclusion		
Enhance the out-of-court restructuring framework.	ST	The draft Insolvency Law and framework will include early detection and early intervention. The law was expected to be submitted to parliament by the end of 2023, but this has not occurred
Strengthen auditors' quality and corporate accounting standards and practices.	MT	A new Audit Law is being drafted to fully comply with the EU Audit Directive and Regulation on specific requirements regarding statutory audit of public-interest entities to ensure that audits are of adequate quality and carried out by auditors and firms that are subject to stringent requirements. Broadening of the definition of public-interest companies is being considered, e.g., to include state-owned or joint-stock companies which have a legal obligation for audit of the financial statements and other listed nonfinancial companies. The latest versions of the International Financial Reporting Standards (IFRS9) and International Accounting Standards will be translated in the course of 2022 and will be implemented in 2023. In 2022 the National bank adopted a new Decision on the scope of audit of bank`s annual financial statements and operations (Official gazette 83/22) with more stringent requirements on the scope of the audit of banks annual financial reports. In addition, in 2018 the National Bank adopted a new Decision on good corporate governance rules for banks (amended in 2019), which follows the latest international standards on banks' corporate governance.

INTERNATIONAL MONETARY FUND

REPUBLIC OF NORTH MACEDONIA

April 8, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of February 28, 2025)

Membership Status:	Joined 12/14/1992; Article VIII	
As of February 28, 2025		
General Resources Account:	SDR Million	Percent of Quota
Quota	140.30	100.00
Fund holdings of currency	361.28	257.51
Reserve position	0.00	0.00
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	200.09	100.00
Holdings	1.18	0.59
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Precautionary and Liquidity Line[1/]	203.44	145.00
Emergency assistance [2/]	17.54	12.50

[1/] Formerly PCL.

[2/] Emergency Assistance may include ENDA, EPCA and RFI.

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PLL [1/]	Nov 21, 2022	Nov 20, 2024	406.87	203.44
PLL [1/]	Jan 19, 2011	Jan 18, 2013	413.40	197.00
Stand-By	Aug 31, 2005	Aug 30, 2008	51.68	10.50

[1/] Formerly PCL.

Outright Loans: [2/]

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Apr 10, 2020	Apr 15, 2020	140.30	140.30

[2/] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date c
commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund [3/]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	17.54	42.09	86.81	59.63	14.91
Charges/Interest	10.52	13.36	11.34	8.18	6.38
Total	28.06	55.45	98.15	67.81	21.29

[3/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Arrangement:
The de jure exchange rate arrangement is floating. Under the Law on Foreign Exchange Operations (Article 33), the denar exchange rate is freely determined on the basis of supply and demand in the foreign exchange market. However, the National Bank of the Republic of North Macedonia (NBRNM) participates in the foreign exchange market (Article 34), in order to achieve the goals of the monetary and foreign exchange policies. The NBRNM implements the monetary strategy of targeting the nominal exchange rate against the euro. The intermediary objective of the monetary policy is to maintain a stable denar exchange rate. Thus, the NBRNM maintains a stable exchange rate within a narrow band of bid-ask exchange rates determined by the Committee for Operational Monetary Policy. The de facto exchange rate arrangement is classified as a stabilized arrangement. North Macedonia has accepted the obligations of Article VIII, Sections 2, 3 and 4 and currently maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations:
The first consultation with the Republic of North Macedonia was concluded in August 1993. The last consultation was concluded on January 19, 2024 (IMF Country Report 24/26). North Macedonia is on the standard 12-month Article IV consultation cycle.

Table 1. Republic of North Macedonia: Technical Assistance Since 2016

Purpose	Department	Date
Public Debt Management	MCM/WB	January, 2017
Public Expenditure and Financial Accountability	FAD/WB	December 2021
Public Financial Management	FAD	September 2019
Review PIM Decree and Manual	FAD	December/January 2024
Public Investment Management	FAD	February 2020 July 2021
PIMIS Implementation	FAD	September/October 2024
Public-Private Partnership Law	FAD	January 2021
Cash Management (in the context of broader PFM reforms)	FAD	October 2017
Organic Budget Law	FAD	December 2017
Fiscal Rule and Fiscal Council	FAD	February 2018
Fiscal Transparency Evaluation	FAD	April 2018
Strengthening the Analysis and Disclosure of Fiscal Risks	FAD	September/October 2024
Analyzing and Disclosing Fiscal Risks	FAD	January/February 2024
Credit Guarantee Scheme	FAD	July 2020
Tax Policy	FAD	January 2017 September 2017
Tax Administration	FAD	April 2016 May 2016 July 2016 May 2017 September 2017 March 2018 December 2018 March 2019 May 2019 January 2021 January/February 2025
Tax IT System Improvement	FAD	May 2017 September 2017 May 2021 June 2024
Taxpayer Registration	FAD	November 2018
Tax Treaty Policy	FAD	October 2019
Tax Audit Function	FAD	February 2016 November 2016 March 2017 February 2018 March 2020 May 2021
Tax Arrears Management	FAD	September 2018 November 2019 April 2021

Table 1. Republic of North Macedonia: Technical Assistance Since 2016 (continued)

		December 2021
Taxpayer Services	FAD	November 2021
Management Reporting System and KPIs	FAD	March 2021
Large Taxpayers Office	FAD	March 2016 October 2019 September 2024
Personal Income Taxation	FAD	December 2021
Property Tax System	FAD	September 2017 April 2018
Transfer Pricing and Related International Issues	FAD	September 2017 December 2018
Tax Compliance Management	FAD	October 2016 November 2016 October 2018 October 2019 February 2020 October 2021
Tax Policy Analysis Capacity	FAD	March 2023
Value Added Tax	FAD	August 2021
PFM Budget Preparations	FAD	June 2023
PFM Laws and Institutions	FAD	Jun 2023
Government Finance Statistics	STA	June 2016 November 2016 February 2017 July 2017 November 2017 March 2018 June 2018 November 2018 March 2019 July 2019 November 2019 September 2020 April 2021 November 2021 April 2022 January 2024
External Sector Statistics	STA	April 2017 December 2023
Sectoral Financial Accounts and Balance Sheet Statistics	STA	October 2018 February 2022
Pilot Program on ICAAP and the Use of Bottom-Up Stress Testing in Banking Supervision	MCM	April 2024
Annual Borrowing Plan	MCM	December 2024
Stress Testing the Banking Sector	MCM	June/July 2021
Emergency Liquidity Assistance	MCM	February 2021
Central Bank Governance	MCM	September 2020

Table 1. Republic of North Macedonia: Technical Assistance Since 2016 (concluded)		
Cash supervision	MCM	December 2021 May/July 2023
Central Bank Operations (Liquidity Forecasting and Organization of Monetary Policy Operations)	MCM	May 2022
Supervisory stress testing	MCM	June 2023
Central Bank Operations (FX Market Operations and Functioning)	MCM	July 2023
Calibrating OMOs and FX Operations	MCM	December 2023
National Bank Law	LEG	October 2020 March 2021
Regional Advisors		
Revenue Administration	FAD	2015-
Public Financial Management	FAD	2015-
FSAP Participation and ROSCs (since 2003)		
FSAP	MCM/WB	May-June 2003
FSAP update	MCM/WB	March 2008 April 2018 July 2018 September 2018
Central Bank Transparency Review		
Central Bank Transparency Review (Pilot)	MCM/LEG	June 2021

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

IMF-World Collaboration:

The Bank and the Fund country teams on the Republic of North Macedonia maintain close collaboration, seeking synergies and harmonizing policy recommendations. The teams broadly agree in their assessment of the economic situation in the country.

- Country page: https://www.worldbank.org/en/country/northmacedonia/overview
- Overview of World Bank Group lending: https://financesone.worldbank.org/countries/north%20macedonia
- IBRD-IDA project operations: https://projects.worldbank.org/en/projects-operations/projects-summary?countrycode_exact=MK&title=North%20Macedonia

The European Investment Bank:

- Country page: https://www.eib.org/projects/country/north-macedonia.htm

European Bank for Reconstruction and Development:

- Country page: https://www.ebrd.com/north-macedonia.html
- EBRD projects: https://www.ebrd.com/home/what-we-do/where-we-invest/north-macedonia.html#customtab-62c8b99761-item-cd8d607847-tab