IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) LOCATED OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW)).

IMPORTANT: YOU MUST READ THE FOLLOWING BEFORE CONTINUING. THE FOLLOWING APPLIES TO THE ATTACHED OFFERING CIRCULAR FOLLOWING THIS PAGE (THE "**OFFERING CIRCULAR**"), WHETHER RECEIVED BY E-MAIL, ACCESSED FROM AN INTERNET PAGE OR RECEIVED AS A RESULT OF ELECTRONIC TRANSMISSION, AND YOU ARE THEREFORE ADVISED TO READ THIS CAREFULLY BEFORE READING, ACCESSING OR MAKING ANY OTHER USE OF THE OFFERING CIRCULAR. IN ACCESSING THE OFFERING CIRCULAR, YOU AGREE TO BE BOUND BY THE FOLLOWING TERMS AND CONDITIONS, INCLUDING ANY MODIFICATIONS TO THEM ANY TIME YOU RECEIVE ANY INFORMATION FROM US AS A RESULT OF SUCH ACCESS. THE ATTACHED DOCUMENT HAS BEEN PREPARED SOLELY IN CONNECTION WITH THE PROPOSED OFFERING TO CERTAIN INSTITUTIONAL AND PROFESSIONAL INVESTORS OF THE SECURITIES DESCRIBED HEREIN.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION WHERE THE OFFER, SALE OR SOLICITATION IS NOT PERMITTED. ANY SECURITIES TO BE OFFERED OR SOLD HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. YOU ARE NOT AUTHORISED TO AND MAY NOT FORWARD OR DELIVER THE ATTACHED DOCUMENT, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH DOCUMENT IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED TO ACCESS THE ATTACHED DOCUMENT.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, you must (i) be outside of the United States; or (ii) be a qualified institutional buyer ("**QIB**") (within the meaning of Rule 144A under the Securities Act). This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that (1) you understand and agree to the terms set out herein; (2) in respect of securities being offered in an offshore transaction pursuant to Regulations S of the Securities Act, you are outside the United States, and that the e-mail address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S of the Securities Act; (3) in respect of securities offered and sold in reliance on Rule 144A, you are a QIB; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of us; and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

This Offering Circular is being distributed to, and is directed only at, persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply (such persons being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents. Any investment activity (including, but not limited to, any invitation, offer or agreement to subscribe, purchase or otherwise acquire securities) to which this Offering Circular relates will only be available to, and will only be engaged with, persons who fall within the manufacturer target market described in this Offering Circular.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG or J.P. Morgan Securities plc (together, the "**Joint Lead Managers**") nor any person who controls any of them or any director, officer, employee nor agent of any of them, the Republic of North Macedonia or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

THE REPUBLIC OF NORTH MACEDONIA

(acting through the Ministry of Finance)

€700,000,000 1.625% Notes due 2028

ISSUE PRICE: 98.432%

The issue price of the €700,000,000 1.625% Notes due 2028 (the "**Notes**") of the Republic of North Macedonia (the "**Republic of North Macedonia**", the "**Republic**", "**North Macedonia**" or the "**Issuer**") is 98.432% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 10 March 2028 (the "**Maturity Date**").

The Notes will bear interest from, and including, 10 March 2021 at the rate of 1.625% per annum payable annually in arrear on 10 March in each year, commencing on 10 March 2022. Payments on the Notes will be made in Euro without deduction for, or on account of, taxes imposed or levied by North Macedonia to the extent described under "*Terms and Conditions of the Notes – Taxation*".

This Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"), a prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Prospectus Regulation**"), nor listing particulars given in compliance with the listing rules made under Part VI of the FSMA by the UK Financial Conduct Authority (the "**FCA**") pursuant to the FSMA. Application has been made for the Notes to be admitted to the official list of the FCA (the "**Official List**") and to trading on the main market (the "**Market**") of the London Stock Exchange plc (the "**London Stock Exchange**").

Notes are being offered (i) in offshore transactions in reliance on, and as defined in, Regulation S (the "**Regulation S Notes**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and (ii) in the United States only to qualified institutional buyers ("**QIBs**") as defined in Rule 144A of the Securities Act ("**Rule 144A**") in reliance on, and in compliance with, Rule 144A (the "**Rule 144A Notes**").

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

The Notes are expected to be assigned a rating of BB+ by Fitch Ratings Ltd ("**Fitch**") and BB- by S&P Global Ratings, acting through S&P Global Ratings Europe Limited (*Niederlassung Deutschland*) ("**S&P** ").

Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in the Notes involves certain risks. See the section headed "*Risk Factors*" in this Offering Circular.

The Notes will be offered and sold in registered form and in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will be represented by beneficial interests in one or more global notes (the "**Global Notes**") which shall be registered in the name of a nominee for, and deposited on or around 10 March 2021 (the "**Issue Date**") with a common depository for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates will not be issued for beneficial interests in the Global Notes. See "*Form of Notes and Transfer Restrictions*".

Joint Lead Managers

Citigroup **Deutsche Bank** **Erste Group Bank AG**

J.P. Morgan

This Offering Circular is dated 8 March 2021

IMPORTANT NOTICES

The Republic accepts responsibility for the information contained in this Offering Circular. To the best knowledge of the Republic the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular or any responsibility for the acts or omissions of the Republic or any other person (other than the relevant Joint Lead Manager) in connection with the issue and offering of the Notes. None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Offering Circular in connection with the issue or offering of the Notes (the "**Offering**") and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Offering Circular is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular. Any other representation or information should not be relied upon as having been authorised by the Republic or the Joint Lead Managers. The contents of this Offering Circular are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

Information included herein that is identified as being derived from information published by the Republic or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Republic. All other information herein with respect to the Republic is included herein as a public official statement made on the authority of the Ministry of Finance.

Neither the delivery of this Offering Circular nor the Offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the Offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Form of Notes and Transfer Restrictions*".

This Offering Circular has been prepared by the Republic for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Republic and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of North Macedonia of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

EU MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each relevant manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU on markets in financial instruments (as amended, "**EU MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each UK manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**UK distributor**") should take into consideration the UK manufacturers' target market assessment; however, a UK distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the UK manufacturers' target market assessment) and determining appropriate distribution channels.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE NOTES HAVE NOT BEEN APPROVED OR DISTRIBUTED BY THE U.S. SECURITIES AND EXCHANGE COMMISSIONS, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

In this Offering Circular, unless otherwise specified, references to "**Euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "**$**", "**USD**" and "**US dollars**" are to United States Dollars and references to "**Denars**" and "**MKD**" are to Macedonian Denars.

The official rate published by the National Bank of the Republic of North Macedonia (the "**NBRNM**") for U.S. dollars on 1 March 2021 was MKD 50.9 = USD 1.00 and the official rate published by the NBRNM for Euro on 1 March 2021 was MKD 61.7 = €1.00.

In this Offering Circular, unless otherwise stated, all annual information, including budgetary information relating to the Republic, is based upon calendar years. The GDP and expenditure numbers relating to the Republic in this Offering Circular are based on constant prices unless otherwise stated. In certain cases, the Ministry of Finance has performed arithmetic calculations or otherwise determined the form in which information is classified or presented herein. GDP data in this Offering Circular have been prepared in accordance with the ESA 2010 methodology adopted by the State Statistical Office of North Macedonia ("**SSO**") in April 2014. The Republic produces data in accordance with the IMF's Special Data Dissemination Standard which has been designed to guide International Monetary Fund ("**IMF**") member countries in the provision of their economic and financial data to the public. Commencing in June 2014, North Macedonia has prepared balance of payment data in accordance with the IMF's Statistics Department's sixth edition of the Balance of Payments Manual ("**BPM6**"), and data for earlier periods have been restated to reflect the methodology. References to the European Union (the "**EU**") and EU members at a particular point in time or date are references to the EU comprising those countries that were members of the EU at that particular point in time or on such date.

Certain figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Data generated by the NBRNM for the external sector remains subject to regular revision for a period of up to 270 days following the end of the relevant period. Further revision may occur after this period in certain situations. Accordingly, in this Offering Circular, some 2019 data and all 2020 data attributed to the NBRNM are classified as "preliminary".

Data generated by the Ministry of Finance and the SSO is generally published before certain information is available in final form, and is therefore classified as "estimated" and subject to revision for a period of up to nine months following the end of the relevant period. After these initial revisions, the data is classified as "preliminary" and subject to further revision until all relevant information is available in final form. In this Offering Circular, data attributed to the SSO and Ministry of Finance for 2017 and 2018 are "final", data for 2019 is "preliminary" and data for 2020 is "estimated".

In addition, certain financial and economic data presented herein may differ from previously published data due to regular revisions conducted by the State Statistical Office, the Ministry of Finance, the NBRNM and other relevant authorities of North Macedonia.

See also "*Risk Factors—Official economic data may not be accurate and could be revised*".

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Circular constitute forward looking statements. Statements that are not historical facts, including statements about the Republic's beliefs and expectations, are forward looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward looking statements speak only as of the date that they are made and the Republic undertakes no obligation to update publicly any of them in light of new information or future events. Forward looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward looking statement. Forward looking statements include, but are not limited to: (i) plans with respect to implementation of economic policy and the pace of economic and legal reforms; (ii) expectations about EU accession and membership of the North Atlantic Treaty Organisation ("**NATO**"); (iii) expectations about the behaviour of the economy if certain economic policies are implemented; (iv) expectations about the impact of the global financial crisis and the COVID-19 pandemic on the economy; (v) the outlook for inflation, budget deficit, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (vi) estimates of external debt repayment and debt service.

Statistical data appearing in this Offering Circular has been extracted or compiled from the records, statistics and other official public sources of information in North Macedonia, and has not been independently checked or verified. The Republic has accurately reproduced such information, and as far as the Republic is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in North Macedonia to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported grey market economic activity, such statistical data may not accurately reflect current or historic levels of, and trends in, economic activity.

ENFORCEABILITY OF JUDGMENTS

Under the law of North Macedonia, a final and enforceable judgment in a civil proceeding rendered by a court outside the Republic will be enforced on territory of the Republic without re-examination on the merits if such judgment meets the prerequisites for recognition prescribed by the law of North Macedonia.

A final judgment will meet the presumptions for recognition if (i) the defendant had an opportunity to appear and be heard in connection with the original proceeding; (ii) the invitation, the lawsuit or the decision initiating the procedure was properly delivered to the defendant in a manner prescribed by the law of the country where the decision has been passed, provided that the absence of such delivery shall not affect the recognition and the enforcement of the foreign court judgment in certain circumstances where the defendant has presented its defence and entered into the discussion on the merits during the procedure in the first instance, notwithstanding the absence of proper delivery; (iii) the party was given enough time to prepare a defence from the moment of the filing of the lawsuit until the hearing of the case; (iv) courts of North Macedonia did not have exclusive jurisdiction over the subject matter of the original proceeding, unless under applicable law of North Macedonia the parties are allowed to initiate a procedure before a foreign court for a dispute for which the exclusive jurisdiction of a court of North Macedonia is provided; (v) the foreign court based its jurisdiction on circumstances which are provided by applicable law of North Macedonia for establishing jurisdiction of a court or other body of North Macedonia for resolving a case with an international element of the same type; (vi) there are no pending legal proceedings before or a final judgment of a court of North Macedonia involving the same factual circumstances and between the same parties; and (vii) enforcement of the judgment does not violate public order of North Macedonia. The presumptions from (i) to (iii) shall be taken into consideration by the courts of North Macedonia upon a complaint from any of the parties, while the presumptions from (iv) to (vii) shall be taken into consideration by the courts of North Macedonia *ex officio*.

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OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

The following is an overview of certain information contained in this Offering Circular. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. Prospective investors should also carefully consider the information set out in the section entitled "*Risk Factors*" in this Offering Circular prior to making an investment decision. See "*Overview of the Republic of North Macedonia*", "*Macedonian Economy*", "*Balance of Payments and Foreign Trade*", "*Monetary and Financial System*", "*Public Finance*" and "*Indebtedness*" for a more detailed description of the Issuer.

*Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See the Conditions for a more detailed description of the Notes.*

"**Issuer**"	The Republic of North Macedonia (acting through its Ministry of Finance).
"**Joint Lead Managers**"	Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG and J.P. Morgan Securities plc
"**Issue Price**"	98.432% of the principal amount of the Notes.
"**Notes Offered**"	€700,000,000 1.625% Notes due 2028.
"**Issue Date**"	10 March 2021.
"**Maturity Date**"	10 March 2028.
"**Interest on the Notes**"	1.625% per annum.
"**Interest Payment Dates**"	Interest on the Notes will be payable annually in arrear on 10 March of each year. The first payment of interest in respect of the Notes will be made on 10 March 2022 (the "**First Interest Payment Date**") for the period from and including the Issue Date to but excluding the First Interest Payment Date. See "*Terms and Conditions of the Notes – 5. Interest*".
"**Yield**"	As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 1.866% per annum. This is not an indication of future yield.
"**Status**"	The Notes will constitute direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and *vice versa*. See "*Terms and Conditions of the Notes – 2. Status*".

"**Denominations**"	The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000 in excess thereof.
"**Redemption**"	The Issuer will redeem the Notes at their principal amount on the Maturity Date. See "*Terms and Conditions of the Notes – 6. Redemption, Purchase and Cancellation*".
"**Residual Maturity Call at the Option of the Issuer**"	The Issuer may, at its option, from and including the date falling 3 months prior to the Maturity Date to but excluding the Maturity Date, subject to having given not less than 15 nor more 30 calendar days' prior notice to the Noteholders in accordance with Condition 14 (*Notices*), redeem all, but not some only, of the outstanding Notes at their principal amount plus accrued interest up to but excluding the date set for redemption. See "*Terms and Conditions of the Notes – 6. Redemption, Purchase and Cancellation*".
"**Negative Pledge**"	So long as any Note remains outstanding (as defined in the Fiscal and Paying Agency Agreement), the Issuer shall not create, incur, assume or permit to arise or subsist any Lien, other than a Permitted Lien, upon the whole or any part of its existing or future assets or revenues to secure any Public External Indebtedness of the Issuer or any other person, or any Guarantee in respect thereof, unless, at the same time or prior thereto, the Issuer's obligations under the Notes are secured equally and rateably therewith or have the benefit of such other arrangement for the Notes as may be approved by an Extraordinary Resolution (as defined in the Fiscal and Paying Agency Agreement) of the Noteholders. See "*Terms and Conditions of the Notes – 4(a). Negative Pledge*".
"**Events of Default**"	The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default. Holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent), declare all the Notes immediately due and repayable and all principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives such written notice of the declaration. If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the declaration

shall be annulled and rescinded. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto.

See "*Terms and Conditions of the Notes – 9. Events of Default*".

"**Form of Notes**"	The Notes will be in registered form, without interest coupons. Notes offered and sold in reliance upon Regulation S will initially be represented by beneficial interests in the Unrestricted Global Note and Notes offered and sold in reliance upon Rule 144A will initially be represented by beneficial interests in the Restricted Global Note, each in registered form, without interest coupons attached, deposited with the Common Depositary and registered in the name of the Common Depositary (or a nominee thereof). Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Notes.
"**Taxation and Additional Amounts**"	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by North Macedonia or any regional or local subdivision or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes – 8. Taxation*".
"**Modification and Amendment**"	A summary of the provisions for convening meetings of Noteholders and amendments is set forth under "*Terms and Conditions of the Notes – 12. Meetings of Noteholders and Modification*".
"**Use of Proceeds**"	The net proceeds of the issue of the Notes will be used by the Issuer for budget support in 2021 and to repay its maturing public debt liabilities. See "*Use of Proceeds*".
"**Ratings**"	The Notes are expected to be assigned a rating of BB+ by Fitch and BB- by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating organisation.
"**Listing and Admission to Trading**"	Application has been made for the Notes to be admitted to the Official List and to trading on the Market.
"**Governing Law**"	The Notes, the Fiscal and Paying Agency Agreement and any non-contractual obligations arising out of or in connection with

	the Notes or the Fiscal and Paying Agency Agreement (as defined in the Conditions), as the case may be, will be governed by English law.
"**Transfer Restrictions**"	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "*Form of Notes and Transfer Restrictions*".
"**Fiscal Agent and Principal Paying Agent**" and "**Transfer Agent**"	Citibank, N.A., London Branch
"**Registrar**"	Citigroup Global Markets Europe AG
"**ISINs**"	XS2310118893 Regulation S Global Note XS2310119198 Rule 144A Global Note
"**Common Codes**"	231011889 Regulation S Global Note 231011919 144A Global Note

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the ability of the Republic to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur. Additional risks and uncertainties not currently known to the Republic or that the Republic currently deems to be immaterial may also materially affect the Macedonian economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risks related to the Republic

The outbreak of communicable diseases, including the recent COVID-19 pandemic, has caused and is likely to continue to cause significant disruption to both the global economy and the Macedonian economy

The outbreak of communicable diseases on a global scale, including the recent COVID-19 pandemic, could affect investment sentiment, result in volatility in global capital markets, reduce international trade and impact commodity prices. In addition, such outbreaks can result in restrictions on travel and public transport, restrictions on trade and transportation of goods, prolonged closures of workplaces, and contribute to declines in global bond and stock valuations, which could have a material adverse effect on the global economy and the economy of the Republic, which could, in turn, affect its capacity to repay principal and make payments of interest on the Notes.

At the end of December 2019, COVID-19 was reported to the World Health Organisation ("**WHO**") by the Chinese public health authorities. The initial outbreak of COVID-19 spread rapidly across the world and was ultimately declared a pandemic by the WHO on 11 March 2020. COVID-19 has now been detected in more than 200 countries and territories. As a result of the outbreak, many governments, including the Government of North Macedonia (the "**Government**"), have implemented a series of measures in an attempt to slow the spread of COVID-19, including closing major transit hubs, reducing public transportation, moving school and university programmes to be conducted online, requiring citizens to remain at home and practice social distancing, and closing borders to non-nationals. Further, on 17 March 2020, the Republic declared a state of emergency, which was extended several times until 22 June 2020, to give the interim government the necessary powers to implement these measures. The Government has increased the capacity for intensive care units in hospitals and a separate section in each hospital was established for COVID-19 patients. Although the Republic has implemented various social measures in an effort to slow the pace of the COVID-19 outbreak, there can be no assurance that these measures will be effective.

In the second half of November 2020, a state of crisis was declared in North Macedonia and a new measure was adopted where all available resources could be used to respond to the COVID-19 pandemic, including the resources of private hospitals. The state of crisis lasted 30 days and was not extended any further.

The Republic's vaccination process started on 17 February 2021 with the first batch of vaccines used for the health workers across North Macedonia who are directly working with COVID-19 patients. After health workers, the next priority group will be people over the age of 70 with a high risk of disease and complications. However, there is no guarantee that the vaccination campaign will be successful or that restrictions relating to COVID-19 can be removed in the near or medium term. In addition, there is no guarantee that the Republic can ensure the continued supply of the number of vaccine doses required to meet its vaccination targets within the stated time period or at all.

In addition, COVID-19 has severely disrupted the global economy, causing financial markets to decline materially and their volatility to increase to historically high levels, high levels of unemployment, a reduction in international trade and investment and a significant decrease in oil prices. These global effects, particularly negative effects on important trading partners, together with the measures taken by the Government to slow the spread of the virus, has had and may continue to have a material impact on the economy of the Republic and slow the pace of investment and progress of reforms in the country. The Republic's economic activity declined by 5.9% in the first nine months of 2020, reflecting unfavourable trends in the second quarter and containment measures taken in response to the COVID-19 pandemic. In the year ended 2020, the Central Government Budget deficit amounted to MKD 53.9 billion, or 8.1% of GDP. In the year ended 2019, the budget deficit was 2.0% of GDP. The increase in the budget deficit during 2020 was due to the effects of the COVID-19 pandemic and subsequent governmental measures which continue to result in a lower level of revenues, creating greater financing needs than anticipated in the budget, a decrease in remittances, an increase in the level of public debt, all leading to a widening of the public deficit. During the COVID-19 pandemic, restrictions on domestic banks' credit assessments were eased in order to facilitate lending, which has led to an increase in private household debt. On 12 November 2020, the Government approved the annual budget for 2021 reflecting further measures intended to support domestic demand in light of disruptions caused by the COVID-19 pandemic and to reflect the resulting expected declines in government revenues. In the 2021 budget, the Government estimates the budget deficit will decrease to 4.9% of GDP. There can be no assurance that actual Government expenditures or decreases in revenues for 2021 will not ultimately be higher than budgeted, as the scope and severity of the effect of the pandemic on the economy of the Republic cannot be accurately predicted at this time. See "—*The Macedonian economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on economic growth and the ability of North Macedonia to service its public debt*".

The COVID-19 pandemic is on-going and the long-term effects of the pandemic on the global economy are still unclear. There can be no assurance that COVID-19 will not have a prolonged adverse effect on the Macedonian economy or its capacity to repay principal and make payments of interest on the Notes.

The Macedonian economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on economic growth and the ability of the Republic to service its public debt

The Macedonian economy is small and thus largely dependent on external trade, both for supplies of energy as well as of inputs for the export-oriented industrial sector. In addition, the Republic has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on energy imports and imported goods for its export-oriented processing industries, largely financed by private transfers (principally remittances from expatriate workers). The Republic is also heavily reliant on foreign direct investment ("**FDI**") flows in order to finance investment, and to drive changes in its economic structure. In particular, 'greenfield' FDI has played a key role in contributing to the diversification of Macedonian industrial production and broader sector diversification. The rate of future economic growth is, in turn, dependent on effecting such changes in the structure of the Macedonian economy and maintaining the appeal of the Republic to foreign investors and institutions as an appropriate investment opportunity. During 2020, net FDI amounted to 1.9% of GDP or an annual decline by 1.3 percentage points ("**p.p.**") of GDP compared to the same period in 2019, reflecting global uncertainty surrounding COVID-19 and the risk aversion of foreign investors. The breakdown of direct investments points to lower net inflows from equities and reinvested earnings as opposed to smaller net outflows from debt instruments or intercompany lending. Accordingly, the Macedonian economy is vulnerable to external shocks, particularly those affecting economic trends in the EU and its other major trading partners, such as the global financial and economic crisis that started in 2008, the subsequent sovereign debt crisis, the on-going COVID-19 pandemic and the accompanying impact on economic conditions in its major trading partners and sources of inbound FDI. For example, remittances to the Republic from expatriate workers and exports, 47% of exports to Germany in 2020, with a high concentration in the automotive industry, did decline due to the global effects of the COVID-19 pandemic. This was a result of the restrictive measures introduced in order to contain the spread of COVID-19 which significantly reduced the international cross-border movement of passengers and subsequently resulted in a reduction of foreign exchange inflows of remittances in cash. This was partially offset by increased inflows from remittances sent via official channels such as banks or currency transfer systems.

While the negative trends that the Macedonian economy experienced following the 2008 financial crisis have since reversed, the economy remains vulnerable to deterioration in global economic conditions. In addition, net borrowing by the Government has increased in recent years and is expected to increase further, increasing the country's exposure to, and dependence on, global financial markets. Vulnerabilities are also present in the form of increasing government guarantees to State-owned enterprises, estimated at 8.6% of GDP as at 31 December 2020, up from 2.5% of GDP in 2008. The ability of the Republic to attract FDI is, in large part, based on international perceptions of the overall status of structural reforms and economic conditions in the Republic, perceptions of regional stability and economic prospects, and global macroeconomic conditions generally. In addition, consequences of the COVID-19 pandemic and measures implemented to contain it, as well as the consequences of the UK's exit from the European Union ("**Brexit**") and/or the associated impact on the UK and regional economies, may adversely impact the willingness of investors to make investments in the Republic. According to the IMF, the economic outlook of the Republic has deteriorated substantially due to the COVID-19 pandemic. This decline, in combination with the negative shocks to the global economy, has created an urgent balance of payments need. As a result, the Government of the Republic has requested, and the IMF approved on 10 April 2020, a disbursement of special drawing rights ("**SDR**") 140.3 million (approximately €176.5 million) for the Republic under the Rapid Financing Instrument (the "**RFI**"), equivalent to 100% of its quota. On 22 April 2020, based on the request by the Republic for financing, the European Commission ("**EC**") adopted a proposal to provide €160 million in Macro-Financial Assistance to the Republic as part of the EU's strategy to support partner countries' efforts to tackle the COVID-19 pandemic. In addition, in April 2020, the World Bank approved the Emergency COVID-19 Response Project for the Republic in the amount of €90 million. The first instalment of €83 million of the EC's Macro-Financial Assistance was disbursed in October 2020 and the second instalment is expected to be available in the first half of 2021. Accordingly, economic conditions in the Republic may be materially and adversely affected by any deterioration in regional or global economic conditions.

In addition, any deterioration in financing conditions as a result of market, economic or political factors outside its control, including the impact of the COVID-19 pandemic, could make it difficult for the Republic to refinance its indebtedness on favourable terms.

Finally, a significant decline in the economic growth of its trading partners, including EU member states, could also have an adverse effect on demand for exports from the Republic and its balance of trade and, as a result, adversely affect its economic growth. These economic factors could have a material adverse effect on the ability of the Republic to repay principal and make payments of interest on the Notes and on its credit rating.

An investment in a developing country such as North Macedonia is subject to substantially greater risks than an investment in a more developed country

An investment in a country such as North Macedonia is subject to substantially greater risks than an investment in a country with a relatively more developed economy and relatively more developed political and legal systems. These greater risks include economic instability caused by factors such as a narrow export base, reliance on imports of energy and key inputs, fiscal and current account deficits, reliance on FDI, high unemployment and changes in the political, economic, social, legal and regulatory environment and the possibility that actions of current governments may be challenged by future governments. Although significant progress has been made in reforming the Macedonian economy and political and legal systems since the dissolution of the former Yugoslavia and its independence in 1991, the Macedonian economy remains characterised by attributes such as concentration in a number of key industries (including the automotive industry), reliance on imports and FDI, trade and current account deficits, and high unemployment, any or all of which may adversely impact the economic stability of North Macedonia. In addition, the legal infrastructure and regulatory framework of the Republic are still developing. As a consequence, an investment in North Macedonia, including the Notes, carries risks that are not typically associated with investing in more mature markets. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate. Generally, investments in developing countries, such as North Macedonia, are only suitable for sophisticated investors who can fully appreciate the significance of the risks involved.

Investment in the Notes could also be adversely affected by negative economic or financial developments in other countries, particularly neighbouring countries. Adverse economic developments in one or more of the countries that comprise the major trading partners (many of which are in the EU and some of which are facing economic challenges from the COVID-19 pandemic) of North Macedonia could adversely affect the Macedonian economy and the ability of North Macedonia to repay principal and make payments of interest on the Notes. For example, concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries have, from time to time, caused significant disruptions in international capital markets.

In addition, on 23 June 2016 the UK held a referendum to decide on the UK's membership of the EU, and voted to leave the EU. The procedure for withdrawing from the EU was triggered by the UK on 29 March 2017. On 24 December 2020, the UK and the EU agreed a trade and cooperation agreement (the "**Trade and Cooperation Agreement**"). The Trade and Cooperation Agreement provides a structure for the future EU and UK relationship following the UK's exit from the EU. The Trade and Cooperation Agreement applies provisionally from 1 January 2021 pending formal ratification by the EU parliament (with the UK having ratified the Trade and Cooperation Agreement on 30 December 2020). On 3 December 2020, the Partnership, Trade and Cooperation Agreement between the United Kingdom of Great Britain and Northern Ireland and the Republic of North Macedonia (the "**Partnership Agreement**") was signed, which mirrors the trade conditions the Republic had with the UK prior to Brexit under the EU Stabilisation and Association Agreement ("**SAA**"). Due to the on-going political uncertainty as regards the structure of the future relationship between the UK and the EU, the precise impact of Brexit on North Macedonia is difficult to determine at the time of this Offering Circular. The Partnership Agreement entered into force in December 2020 and is effective as of 1 January 2021. Between 2015 and 2019, trade with the UK amounted to an average of 6.4% of total trade. See "*Overview of the Republic of North Macedonia—International Relations—EU Accession*".

The foregoing risks have led to, and may in the future lead to, increased market volatility, reduced liquidity and increased credit risk premiums for certain market participants as well as a decrease in available financing. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or the possible departure of one or more countries from the EU and/or the replacement of the euro by one or more successor currencies, could cause significant market dislocations, which could adversely affect the global financial markets and, in turn adversely affect the value of investments in North Macedonia, including the Notes.

The Republic may not succeed in implementing its proposed economic, financial and other reforms and strategic policies, which could adversely affect the Macedonian economy and the ability of the Issuer to repay principal and make payments of interest on the Notes

Since declaring independence in 1991, North Macedonia has undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In conjunction with this transformation, North Macedonia has been pursuing a programme of economic structural reform with the objective of establishing a market-based economy through privatisation of state enterprises and deregulation and diversification of the economy. While North Macedonia has made substantial progress in developing a functioning market-based economy, establishing economic and institutional infrastructure to a Western European standard requires further investment and may take years to complete.

The implementation of these reforms, including programmes to support further economic growth, development, and diversification, depends on significant and sustained political commitment and social consensus in favour of reforms. Notwithstanding significant progress in recent years and stated policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that these and other economic and financial initiatives, and the reforms described in this Offering Circular, will continue, will not be reversed or will achieve their intended aims in a timely manner or at all, which could result in the inability of the Republic to secure EU development funds. In addition, from time to time, the Republic has experienced political and/or ethnic tensions, sometimes resulting in early Assembly elections as well as other challenges to the political process and/or difficulties in reaching consensus. Most recently, on October 20, 2019, the prime minister of the Republic, Zoran Zaev called for a snap election following the decision by EU leaders to postpone opening EU membership talks with the Republic. The elections had originally been scheduled for 12 April 2020 but were delayed due to the outbreak of the COVID-19 pandemic. The elections were held on 15 July 2020 with the Social Democratic Union of Macedonia ("**SDSM**") remaining as the majority government party and Zoran Zaev securing a second term as the Prime Minister of the Republic. See "*Overview of the Republic of North Macedonia—Political System and Government Structure—Recent Developments—Elections*".

Political instability has previously arisen around elections and has resulted in deposit outflows from the Macedonian banking sector (which is predominantly foreign owned), lower economic performance and, consequently, a supplemental budget for public expenditure. There is no guarantee the results of the July 2020 elections will not lead to political tensions in the future. A failure of the Government to implement its proposed economic, financial and other reforms and policies, changes in the political or social consensus relating to these policies, or a failure to fulfil conditions associated with the EU or other funding for such reform programmes, could adversely affect the Republic's agenda for financial initiatives and economic reform and could result in a deterioration of investor confidence, deposit outflows and increased financial instability, increased pressure on foreign exchange reserves, higher sovereign borrowing costs and a slowdown in structural reforms and, as a result, have a material adverse effect on its capacity to repay principal and make payments of interest on the Notes.

The currency peg between the Macedonian Denar and the Euro limits the ability of the NBRNM to accommodate monetary policy

The Republic has sought to maintain a fixed exchange rate between the Macedonian Denar and the Euro or, prior to the adoption of the Euro, the Deutsche Mark, since 1995. Maintaining this fixed exchange rate imposes certain constraints on the ability of the Republic to accommodate monetary policy (including in response to external shocks) that are not present in countries that have fully floating exchange rates, including the ability to set interest rates and regulate the money supply. In addition, the Macedonian economy is and will continue to be directly affected by the monetary policy of the European Central Bank ("**ECB**"), including its interest rate policy. For example, the NBRNM may be limited in its ability to halt significant outflows of capital, which could in turn result in depletion of national foreign exchange reserves and potentially an inability to maintain the fixed exchange rate. The foregoing limitations on the ability of the Republic to manage its monetary policy (as implemented by the NBRNM) and fiscal policies, or a failure to maintain this fixed exchange rate, thereby resulting in a depreciation of the Macedonian Denar against the Euro, could materially and adversely affect economic conditions in the Issuer and its ability to repay principal and make payments of interest on the Notes.

The Macedonian economy is highly dependent on its major trading partners

The Macedonian economy is reliant on a small number of industrial sectors and exports to a limited number of trading partners, and adverse market conditions affecting one or more of these sectors or economic developments in these trading partners could have a material and adverse effect on overall economic conditions in North Macedonia. While in recent years the Republic has sought to diversify its economy, with sectors such as the automotive industry becoming increasingly important, Macedonian industry remains heavily reliant on manufacturing, which, in the year ended 31 December 2020, accounted for 76.5% of industrial production in the aggregate, followed by electricity, gas, steam and air conditioning supply (12.3%) and mining and quarrying (11.2%). The largest components of manufacturing as of 31 December 2020 were: food and beverage (13.3%), manufacture of motor vehicles, trailers and semi-trailers (12.3%), textiles and clothing (12.1%), and machinery and equipment (8.9%). The remainder consisted of miscellaneous manufactured goods. In addition, the principal export markets of the Republic are concentrated, with exports to EU countries accounting for approximately 78% of total exports in 2020. Within the EU, Germany accounted for 47% of total exports during 2020, reflecting the increase of recent years in light of the greater importance of the automotive industry in total exports, followed by Bulgaria, Kosovo and Serbia, which accounted for 4.8%, 4.0%, and 3.9% of total exports, respectively. As a result, economic conditions in the Republic are significantly affected by changes in EU and global demand for such products, the costs of extracting, processing or producing of such material and the prices for such products on regional and global markets. In addition, adverse economic developments in EU countries, or other countries that are significant consumers of products produced in the Republic, could adversely affect the markets for exports of the Republic. See also "— *The Macedonian economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on Macedonian economic growth and the ability of the Issuer to service its public debt*". Any or all of these developments may materially and adversely affect economic conditions in North Macedonia and, accordingly, the ability of the Issuer to repay principal and make payments of interest on the Notes.

Deterioration in relations with major energy suppliers of North Macedonia may adversely affect the supply of energy resources and therefore have an adverse effect on the Macedonian economy

The Republic imports a large proportion of its energy requirements. While the Republic has in recent years sought to increase its energy self-sufficiency, in particular through a number of hydropower projects, the Republic imports oil and natural gas primarily from the Russian Federation, Greece, Serbia and Bulgaria, and imports electricity primarily from Serbia, Bulgaria and Greece. Deterioration in bilateral trade relations with the major energy suppliers of the Republic or restrictions on supplies of oil or natural gas to the Republic, or significant increases in prices of oil, natural gas or electricity, could adversely affect the Macedonian economy. Continued sanctions on the Russian Federation may restrict the supply of oil or natural gas, which could lead to oil and natural gas price increases. Any major changes in relations with major energy suppliers to the Republic, and in particular any such changes adversely affecting supplies of energy resources to the Republic, may adversely affect the Macedonian economy and, accordingly, its ability to repay principal and make payments of interest on the Notes.

The high level of foreign ownership of the Macedonian banking system may adversely affect the stability of the Macedonian financial system

The high level of foreign ownership in the Macedonian banking system makes it vulnerable to disruption as a result of internal or external factors. As at 30 September 2020, foreign-controlled banks accounted for 71.5%

of total assets, 80.4% of total loans and 69.4% of total deposits in the Macedonian banking system. Two of the three largest banks in North Macedonia, collectively accounting for 34.8% of total assets of the Macedonian banking system as at 30 September 2020, were subsidiaries of a Greek and a Slovenian bank, respectively. While these local subsidiaries are at present largely self-financing, in the event of increased levels of non-performing loans or deteriorating economic conditions in North Macedonia, foreign parent banks may decline to provide financing to their subsidiaries in North Macedonia and/or be rendered unable to provide such financing as a result of adverse economic developments or regulatory requirements in their home jurisdictions. Foreign-owned banks may also reduce their loan portfolios or other business activities in a manner adversely affecting North Macedonia as a result of events unrelated to North Macedonia, including as a result of economic conditions in the Eurozone and sovereign debt markets or the jurisdictions of their parent banks and the resulting impact of these and other factors on the financial condition of the banking group more generally.

Such occurrences may result in a reduction in the level or scope of the activities of these banks' activities in North Macedonia or a failure to meet capital ratios or other regulatory requirements, amongst other developments. Any or all of these occurrences may negatively affect the Macedonian economy and have an adverse effect on the ability of the Issuer to repay principal and make payments of interest on the Notes.

North Macedonia may not become a member of the EU in the near to medium term

North Macedonia is in the process of applying for full membership in the EU. Since becoming a candidate for EU accession in 2005, North Macedonia has implemented a wide range of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU and to meet the preconditions for commencement of accession negotiations. In light of the progress achieved, the EC recommended opening accession negotiations with North Macedonia in October 2009, and has repeated this recommendation annually for ten years (most recently on 2 March 2020). In June 2015, following the renewal of political dialogue in the country, the EC presented to the authorities of the Republic of North Macedonia a List of Urgent Reform Priorities for the country and, subsequently, the Government developed the Plan of Accession Reforms and Urgent Reform Priorities ("**PARURP**") for implementation of these priorities. On 24 March 2020, EU member states agreed to open accession talks with North Macedonia. The EC presented the draft Negotiating Framework ("**NF**") for North Macedonia on 3 June 2020, opening the process of consultations with member states, which remains on-going. The NF received support from all other 26 member states, apart from Bulgaria, which vetoed the NF. Thus, the EC was not able to adopt the NF. Bulgaria lodged its veto due to alleged open issues between the two countries regarding historic and linguistic matters. Dialogue between both the Republic of Bulgaria and the Republic of North Macedonia on the implementation of the treaty signed on 1 August 2017 (the "**Friendship Treaty**") between the two countries is on-going with the intention to come to a mutual understanding to implement the EU accession negotiations. Both North Macedonia and Bulgaria have exchanged action plans for the implementation of the Friendship Treaty. Bulgaria provided the latest action plan at the end of January 2021 which is currently being reviewed by the North Macedonian Ministry of Foreign Affairs. Despite continuing efforts of North Macedonia to fulfil the political and economic criteria for membership in the EU, there can be no assurance that North Macedonia will become a full member of the EU within any given timeframe, or at all. See "*Overview of the Republic of North* Macedonia — *International Relations — EU Accession*". Continuing delays in the EU accession process due to the inability of North Macedonia to meet harmonisation criteria or a change in EU entry criteria, could adversely impact the economic development of North Macedonia and, accordingly, its ability to repay principal and make payments of interest on the Notes.

Corruption, money laundering and organised crime may hinder the growth of the Macedonian economy, delay or foreclose EU accession or otherwise adversely affect North Macedonia

Independent analysts have identified corruption, money laundering and organised crime as concerns in North Macedonia. In the 2020 Transparency International Corruption Perceptions Index, North Macedonia ranked

111th out of 180 countries and territories under review, compared to a ranking of 90 out of 176 in 2016. The deterioration in position is likely due to the corruption allegations against the former Special Public Prosecutor, Katica Janeva, who was accused of involvement in an extortion case, dismissed from her duties and arrested in August 2019. In June 2020, Katica Janeva was sentenced to seven years imprisonment and an appeal was submitted on 1 September 2020. In connection with the same case, two other defendants have been sentenced to imprisonment. In addition, the former Prime Minister, Nikola Gruevski, has been indicted in six criminal and corruption cases. He has fled North Macedonia and was granted asylum in Hungary. A warrant for his arrest was issued on 13 November 2018. Allegations or evidence of corruption, money laundering or organised crime involving the Government and/or members thereof, regardless of whether such allegations prove to be true, may create tensions between political parties, including parties within the governing coalition, otherwise destabilise the governing coalition and/or lead to early elections. In addition, corruption, money laundering and organised crime in North Macedonia could have a negative impact on the Macedonian economy and its reputation abroad, especially on its ability to attract foreign investment, and adversely impact progress towards EU membership. A combination of all or some of these factors could lead to negative effects on economic and social conditions in North Macedonia which could, in turn, lead to a further deterioration in public finances and a material adverse effect on the ability of North Macedonia to repay principal and make payments of interest on the Notes.

The legal system of the Republic is not fully developed and presents greater risks and uncertainties than a more developed legal system

The Republic has taken, and continues to take, steps aimed at developing a more mature legal system, comparable to the legal systems of EU countries. New laws have been introduced and revisions have been made with respect to, amongst others, company, property, securities, labour, environmental and taxation laws in order to harmonise them with EU laws. In addition, the independence of the judicial system and its immunity from economic and political interference in the Republic remains in development. Accordingly, the legal system of the Republic remains in transition and is therefore subject to greater risks and uncertainties than a more mature legal system, such as (i) potential inconsistencies between and among the Constitution and various laws, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in laws and regulations that are ambiguously worded or lack specificity and raise difficulties when implemented or interpreted; (iii) difficulties in predicting the outcome of judicial application of the legislation of the Republic; and (iv) political or other factors resulting in inconsistent judicial determinations and interpretations. As the Republic is a civil law jurisdiction, judicial decisions under the law of the Republic generally have no precedential effect and courts are generally not bound by earlier judgments taken under the same or similar circumstances. This could result in an inconsistent application of the legislation of the Republic to resolve the same or similar disputes. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in the Republic or to predict the outcome of legal proceedings. These and other factors may adversely impact economic conditions and the environment for investment in the Republic, including the willingness of foreign and other investors to invest in the Republic or to provide financing for projects and companies in the country. Such effects could have an adverse effect on economic conditions and growth in North Macedonia and, accordingly, on the ability of the Issuer to repay principal and make payments of interest on the Notes.

Official economic data may not be accurate and could be revised

A range of government ministries including the Ministry of Finance, along with the NBRNM and the SSO, have prepared statistical data which appears in this Offering Circular. Certain of these statistics may be more limited in scope, less accurate, reliable and/or consistent in terms of basis of compilation between various ministries and institutions, and published less frequently than is the case for comparable statistics for other countries (particularly existing members of the EU). Consequently, prospective investors in the Notes should be aware that figures relating to the GDP of North Macedonia and many other figures cited in this Offering Circular may be subject to some degree of uncertainty. Furthermore, these limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for other countries.

In addition, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Offering Circular, data is presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF or World Bank. The statistical information presented in this Offering Circular is based on the latest official information currently available from the stated source, including balance of payments data in accordance with the IMF's BPM6 and GDP data in accordance with ESA 2010. The development of statistical information relating to North Macedonia is, however, an on-going process, as revised figures are produced on a continuous basis. Figures presented may be subject to rounding. Prospective investors should also be aware that none of the statistical information in this Offering Circular has been independently verified.

Risks related to an investment in the Notes

Notes where denominations involve integral multiples definitive Notes

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

Credit ratings may not reflect all risks

The Notes are expected to be assigned a rating of BB+ by Fitch and BB- by S&P. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. On 13 November 2020, Fitch confirmed the rating on the Long Term Issuer Default Ratings ("**IDR**") of the Issuer at BB+ (with a negative outlook). On 19 February 2021, S&P affirmed the BB-/B long- and short-term foreign and local currency sovereign credit ratings of the Issuer (with a stable outlook). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Rating agencies continue to assess rating levels, including to monitor the potential impact of the current coronavirus pandemic generally. Any adverse change in the credit ratings or outlooks of the Notes, or of the Issuer, could adversely affect the trading price of the Notes. In addition, negative rating action could adversely affect the ability of the Issuer to refinance existing indebtedness or finance its deficit and could adversely affect payment of principal and interest under the Notes.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Notes are subject to optional redemption by the Issuer

Pursuant to Condition 6(b) the Issuer has the option to redeem all, but not some, of the Notes in the period from, and including, the date falling three months prior to the Maturity Date to, but excluding, the Maturity Date. Such optional redemption feature is likely to limit the market value of Notes during that final three month period. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed.

The secondary market generally

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. Although application has been made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for trading on its Main Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

Noteholders must rely on the procedures of Euroclear and Clearstream, Luxembourg

The Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg and investors will have to rely on their procedures for transfer, payment and communication with the Republic.

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Global Notes. The Global Notes will be registered in the name of a nominee for, and deposited with a common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Republic will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

TERMS AND CONDITIONS OF THE NOTES

The Conditions set forth below are the terms and conditions of the Notes which (subject to amendment, and except for the paragraphs in italics) will be endorsed on the Definitive Note Certificates issued in respect of the Notes.

The €700,000,000 1.625 per cent. Notes due 2028 (the "**Notes**") of the Republic of North Macedonia ("**North Macedonia**" or the "**Issuer**") were authorised by North Macedonia, acting through the Ministry of Finance of the Republic of North Macedonia. A fiscal and paying agency agreement dated 10 March 2021 (the "**Fiscal and Paying Agency Agreement**") has been entered into in relation to the Notes between the Issuer, Citibank, N.A., London Branch in its capacity as fiscal agent (the "**Fiscal Agent**"), the transfer agent (the "**Transfer Agent**") and principal paying agent (the "**Principal Paying Agent**") and Citigroup Global Markets Europe AG in its capacity as registrar (the "**Registrar**").

In these Conditions, "**Registrar**", "**Transfer Agent**", "**Fiscal Agent**" and "**Principal Paying Agent**" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal and Paying Agency Agreement, and any reference to an "**Agent**" or "**Agents**" shall mean any or all (as applicable) of such persons.

Certain provisions of these conditions are summaries of the Fiscal and Paying Agency Agreement and are subject to its detailed provisions. The Fiscal and Paying Agency Agreement includes the form of the Notes. A copy of the Fiscal and Paying Agency Agreement is available for inspection during usual business hours at the principal office of the Fiscal Agent (presently at 6th Floor Citigroup Centre, Canada Square, London E14 5LB, United Kingdom) and at the specified offices of each of the other Agents. The holders of Notes are bound by and are deemed to have full notice of the provisions of the Fiscal and Paying Agency Agreement.

References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1 Form and Denomination

The Notes are in registered form in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will initially be represented by beneficial interests in global note certificates (the "**Global Notes**") in registered form without interest coupons.

The Global Notes will be exchangeable for Certificates in definitive, fully registered, form ("**Definitive Note Certificates**" and each a "**Definitive Note Certificate**") without coupons, in the circumstances specified in the Global Notes.

The Notes will not be issuable in bearer form.

2 Status

The Notes constitute direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness (as defined below) of the Issuer, from time to time outstanding; **provided**, **however**, **that** the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and *vice versa*.

3 Register, Title and Transfer

(a) Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Fiscal and Paying Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding or holdings of Notes only in certain limited circumstances. Each such Definitive Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) Title

Title to the Notes will pass by and upon registration in the Register. Each Noteholder shall (except as otherwise required by law) be treated as the absolute owner of such Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note Certificate) and no person shall be liable for so treating such Holder.

The Rule 144A Notes will be represented by interests in a Restricted Global Note. The Regulation S Notes will be represented by interests in an Unrestricted Global Note. The Global Notes will each be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**").

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by Euroclear, Clearstream, Luxembourg and their participants, as applicable.

(c) Transfers

Subject to paragraphs (f) and (g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the transfer form (the "**Transfer Form**"); **provided**, **however**, **that** a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) Registration and delivery of Definitive Notes

Subject to paragraphs (e) and (f) below, within five Business Days (as defined below) of the surrender of a Definitive Note Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Definitive Note Certificate of the same aggregate principal amount as the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**Business Day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its specified office.

Where some but not all the Notes in respect of which a Definitive Note Certificate is issued are to be transferred, a new Definitive Note Certificate in respect of the Notes not so transferred will, within five Business Days of the surrender of the original Definitive Note Certificate in accordance with paragraph (c) above, be mailed by uninsured first class mail (airmail if overseas) at the request of the Holder of the Notes not so transferred to the address of such Holder appearing on the Register.

(e) No charge

Registration or transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against payment by the Holder of such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty or governmental charge of whatsoever nature which may be levied or imposed in connection with such registration or transfer.

(f) Closed periods

Noteholders may not require transfers to be registered during the period beginning on the 15th calendar day before the due date for any payment of principal or interest in respect of such Notes.

(g) Regulations concerning transfers and registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Fiscal and Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4 Negative Pledge and Other Covenants

(a) Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal and Paying Agency Agreement) the Issuer shall not create, incur, assume or permit to arise or subsist any Lien (as defined below), (other than a Permitted Lien (as defined below)), upon the whole or any part of its existing or future assets or revenues to secure any Public External Indebtedness (as defined below) of the Issuer or any other Person (as defined below), or any Guarantee (as defined below) in respect thereof unless, at the same time or prior thereto, the obligations of the Issuer under the Notes are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Fiscal and Paying Agency Agreement) of the Noteholders.

(b) Other Covenants

So long as any Note remains outstanding:

(i) either the Issuer or an Agency (as defined below) or any Monetary Authorities of the Issuer (as defined below) shall continue to exercise full ownership, power and control over the International Monetary Assets (as defined below) as they exist from time to time; and

(ii) The Issuer shall duly obtain and maintain in full force and effect all governmental approvals (including any exchange control and transfer approvals) which may be necessary under the laws of the Issuer for the execution and delivery by it of, and performance of its obligations under, the Notes and the Fiscal and Paying Agency Agreement and duly take all necessary governmental and administrative action in the Issuer in order to perform or comply with all or any of its obligations under the Notes and the Fiscal and Paying Agency Agreement (including, without limitation, to make all payments to be made under the Notes as required by these Conditions and the Fiscal and Paying Agency Agreement).

(c) Certain Definitions

For the purposes of these Conditions:

"**Agency**" means any political sub division, regional government, ministry, department, authority or statutory corporation of North Macedonia or the government thereof (whether or not such statutory corporation is autonomous) and any corporation or other entity (but not any commercial corporation or other commercial entity except, in each case, to the extent that any International Monetary Assets are owned, controlled, held or administered thereby) which is directly or indirectly controlled (whether by reason of whole or partial ownership, control over voting or other relevant decision making power to direct management, the composition of management or otherwise) by North Macedonia or the government thereof or one or more Agencies (including, without limitation, the Ministry of Finance, the Government or the National Bank (as defined below)).

"**External Indebtedness**" means all obligations, and Guarantees (as defined below) in respect of obligations, for money borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments) denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of North Macedonia, **provided that** if at any time the lawful currency of North Macedonia is the Euro, then any such obligations and Guarantees for money borrowed or raised as described herein denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in Euro more than 50 per cent. of the aggregate principal amount of which is initially placed outside North Macedonia and issued after the date on which the Euro becomes the lawful currency of North Macedonia, shall be included in this definition.

"**Guarantee**" means any guarantee of or indemnity in respect of indebtedness or other like obligation.

"**International Monetary Assets**" means all the official holdings of gold of North Macedonia and all the Monetary Authorities of North Macedonia holdings of (i) Special Drawing Rights, (ii) Reserve Positions in the Fund and (iii) Foreign Exchange, and the terms "**Special Drawing Rights**", "**Reserve Positions in the Fund**" and "**Foreign Exchange**" have, as to the types of assets included, the meanings given to them in the publication of the International Monetary Fund ("**IMF**") entitled "**International Financial Statistics**" or such other meanings as shall be formally adopted by the IMF from time to time.

"**Lien**" means lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance or arrangement having a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

"**Monetary Authorities of North Macedonia**" means the National Bank and, to the extent that they perform monetary authorities' functions, currency boards, exchange stabilisation funds and treasuries.

"**National Bank**" means the National Bank of the Republic of North Macedonia.

"**Permitted Lien**" means:

(i) any Lien upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property and any renewal and extension of such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased;

(ii) any Lien existing on property at the time of its acquisition (and not created in contemplation of such acquisition) to secure Public External Indebtedness and any renewal and extension of such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased;

(iii) any Lien securing Public External Indebtedness in existence on 8 March 2021 or any Lien arising out of an exchange of collateral permitted by the terms of such Public External Indebtedness and the renewal or extension of such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased;

(iv) any Lien securing Public External Indebtedness or any Guarantee of Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project (including any renewal or extension thereof **provided that** the principal amount secured by any such additional encumbrance does not exceed the principal amount outstanding and secured by the original encumbrance), **provided that** (a) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues (including insurance proceeds) of such project as the principal source of repayment of such Public External Indebtedness and (b) the property over which such Lien is granted consists solely of such assets and revenues or revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such properties;

(v) any Lien on any assets securing Public External Indebtedness which arises pursuant to any order or attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; and

(vi) any Lien arising by operation of law, **provided that** such Lien is not created or permitted to be created by the Issuer to secure any Public External Indebtedness.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or any other juridical entity, including, without limitation, a state or agency of a state (including the Ministry of Finance and the Council of Ministers) or other entity (including the National Bank), whether or not having separate legal personality.

"**Public External Indebtedness**" means External Indebtedness which (i) is in the form of, or represented by, bonds, notes, or other securities or any Guarantees thereof and (ii) is, or is capable of being, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over the counter or on any other securities market.

5 Interest

Each Note bears interest on its principal amount from and including 10 March 2021 (the "**Issue Date**") at the rate of 1.625 per cent. per annum. Interest is payable annually in arrear in the amount of €16.25 per Calculation Amount (as defined below) on 10 March in each year commencing on 10 March 2022 (each an "**Interest Payment Date**") until maturity. Interest due on an Interest Payment Date will accrue during the immediately preceding Interest Period (as defined below) and will be paid subject to and in accordance with the provisions of Condition 7 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder of Notes and (b) the day which is seven days after notice has been given to the holders of Notes that the Fiscal Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any failure in the subsequent payment to the relevant holders under these Conditions).

Interest in respect of any Note shall be calculated per €1,000 in principal amount of the Notes (the "**Calculation Amount**"). Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day count fraction applied to calculate the amount of interest payable in respect of each Note shall be the number of days in the relevant period, from and including the date from which interest begins to accrue, to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

6 Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 10 March 2028, subject as provided in Condition 7 (*Payments*).

(b) Residual Maturity Call at the Option of the Issuer

The Issuer may, at its option, at any time from and including 10 December 2027 to but excluding the Maturity Date, subject to having given not less than 15 nor more 30 calendar days' prior notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date set for redemption), redeem all, but not some only, of the outstanding Notes at their principal amount plus accrued interest up to but excluding the date set for redemption.

(c) No other Redemption

The Issuer shall not be entitled to redeem the Notes other than as provided in paragraphs (a) and (b) above.

(d) Purchase and Cancellation

North Macedonia and its Agencies may at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased may be cancelled or held and resold. Any Notes so cancelled will not be reissued.

7 Payments

(a) Method of Payment

Payments of principal and interest in respect of the Notes will be made by Euro cheque drawn on a bank in London and mailed to the Holder by uninsured first class mail (airmail if overseas), at the address appearing in the Register at the opening of business on the relevant Record Date (as defined below) or, upon application by a Noteholder to the specified office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a Euro account maintained by the payee with a bank in London.

(b) Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

(c) No Commissions

No commission or expenses shall be charged to the Noteholders in respect of any payments of principal or interest in respect of the Notes.

(d) Payments on business days

Where payment is to be made by transfer to a Euro account, payment instructions (for value the due date, or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by a Euro cheque, the cheque will be mailed on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail.

(e) Partial payments

If a Paying Agent makes a partial payment in respect of any Note, the Registrar shall procure that the amount and date of such payment are noted on the Register.

(f) Record date

Payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's specified office on the 15th day before the due date for such payment (the "**Record Date**").

"**Business Day**" in respect of the Notes means a day on which banks are open for business in the place in which the specified office of the Fiscal Agent is located and on which the Trans European Automated Real Time Gross Settlement Express Transfer System (TARGET2) ("**TARGET2**") is operating.

(g) Agents

The Issuer has initially appointed the Fiscal Agent, the Principal Paying Agent, the Registrar and the Transfer Agent named above. The Issuer may at any time vary or terminate the appointment of any such Agent and appoint another Agent or additional or other Agents outside the United States, **provided that**, it will at all times, and while any Note is outstanding, maintain one or more Paying Agents having a specified office in Europe for payments on Notes.

Notice of any such termination or appointment and of any change in the specified office of any Agent will be given in accordance with Condition 14 (*Notices*).

8 Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by North Macedonia or any regional or local subdivision or any authority thereof or therein having power to tax (together "**Taxes**"), unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the holders of Notes of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes in respect of such Note by reason of having some connection with North Macedonia other than the mere holding of such Note; or

(b) if the Note is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days.

For the purpose of these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount plus any accrued interest having been so received) notice to that effect has been given to the holders of Notes.

Any reference in these Conditions to payments of principal or interest in respect of the Notes shall be deemed to include any additional amounts which may be payable under this Condition 8 (*Taxation*).

9 Events of Default

If any of the following events occurs and is continuing:

(a) Non payment

The Issuer fails to pay any principal on any of the Notes within seven days of the due date for payment or any interest or additional amounts on any of the Notes within 15 days of the due date for payment; or

(b) Breach of other obligations

The Issuer does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default has been given to the Issuer at the specified office of the Fiscal Agent by any holder of Notes; or

(c) Acceleration and cross-default

(i) the holders of any Public External Indebtedness of North Macedonia accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the originally stated maturity thereof; or

(ii) North Macedonia fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any originally applicable grace period) or any Guarantee of any Public External Indebtedness given by North Macedonia shall not be honoured when due and called upon (after the expiration of any originally applicable grace period),

provided that the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this paragraph (c) shall have occurred equals or exceeds €20,000,000 or its equivalent in other currencies; or

(d) Moratorium

North Macedonia shall suspend payment of, or admit its inability to pay, its Public External Indebtedness or any part thereof or declare a general moratorium on or in respect of its Public External Indebtedness or any part thereof, or anything analogous to the foregoing shall occur; or

(e) Unlawfulness or Invalidity

The validity of the Notes is contested by North Macedonia or North Macedonia shall deny any of its obligations under the Notes or it is or becomes unlawful for North Macedonia to perform or comply with all or any of its obligations set out in the Notes or any of such obligations shall be or become unenforceable or invalid; or

(f) IMF

North Macedonia ceases to be a member of the IMF, then the holders of at least 25 per cent. in aggregate outstanding principal amount of the Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and repayable, whereupon they shall become immediately due and payable at their principal amount, together with interest accrued to the date of repayment, without further formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. After any such declaration, if the Issuer receives notice in writing from holders of not less than 50 per cent. in aggregate outstanding principal amount of the Notes that all amounts then due with respect to the Notes are paid (other than amounts due solely because of such declaration) and all other defaults with respect to the Notes are cured, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon such declaration shall be annulled and rescinded.

10 Prescription

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

11 Replacement of Notes

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as North Macedonia may reasonably require. Mutilated or defaced Definitive Notes Certificate must be surrendered before replacements will be issued.

12 Meetings of Noteholders and Modification

(a) General

The Fiscal and Paying Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any of these Conditions (having been approved by the Issuer) or any provisions of the Fiscal and Paying Agency Agreement. The following is a summary of selected provisions contained in the Fiscal and Paying Agency Agreement.

For the purposes of this Condition 12 (*Meetings of Noteholders and Modification*):

(i) "**Debt Security**" means the Notes and any other bills, bonds, debentures, notes or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a Debt Security;

(ii) "**Cross-Series Modification**" means a modification involving (i) the Notes or any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement), and (ii) the Debt Securities of one or more other series or any agreement governing the issuance or administration of such other Debt Securities;

(iii) for the purposes of this Condition 12 (*Meetings of Noteholders and Modification*) only, "**holder**" in relation to a Note means the person in whose name the Note is registered on the books and records of the Issuer and, in relation to any other Debt Security, means the person the Issuer is entitled to treat as the legal holder of the Debt Security under the law governing that Debt Security, and the term "**Noteholder**", for the purposes of this Condition 12 (*Meetings of Noteholders and Modification*) only, shall be construed accordingly;

(iv) "**modification**" in relation to the Notes means any modification, amendment, supplement or waiver of the terms and conditions of the Notes or any agreement governing the issuance or administration of the Notes, and has the same meaning in relation to the Debt Securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes shall be read as references to such other Debt Securities or any agreement governing the issuance or administration of such other Debt Securities;

(v) "**outstanding**" in relation to any Note means a Note that is outstanding for the purposes of Condition 12(k) (*Outstanding Notes; Notes Controlled by the Issuer*), and in relation to the Debt Securities of any other series will be determined in accordance with the applicable terms and conditions of that Debt Security;

(vi) "**Record Date**" in relation to any proposed modification means the date fixed by the Issuer for determining the holders of Notes and, in the case of a cross-series modification, the holders of debt securities of each other series that are entitled to vote on or sign a written resolution in relation to the proposed modification;

(vii) "**Reserved Matter**" in relation to the Notes means any proposal to:

(A) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;

(B) effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(C) reduce or cancel the principal amount of outstanding Notes or, in the case of a Cross-Series Modification, the principal amount of Debt Securities of any other series required to approve a proposed modification in relation to the Notes, the principal amount of outstanding Notes required for a quorum to be present, or the rules for determining whether a Note is outstanding for these purposes;

(D) vary the currency or place of payment in which any payment in respect of the Notes is to be made;

(E) amend the status of Notes under Condition 2 (*Status*);

(F) amend the obligation of the Issuer to pay additional amounts under Condition 8 (*Taxation*);

(G) amend the Events of Default set out in Condition 9 (*Events of Default*);

(H) amend the law governing the Notes, the courts to the jurisdiction to which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder set out in Condition 16 (*Governing Law and Jurisdiction*);

(I) modify the provisions contained in the Fiscal and Paying Agency Agreement concerning the quorum required at any meeting of the Noteholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;

(J) change the definition of "**Reserved Matter**" or "**outstanding**" in the Conditions and/or Fiscal and Paying Agency Agreement; or

(K) amend this definition,

and has the same meaning in relation to the Debt Securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) shall be read as references to such other Debt Securities or any agreement governing the issuance or administration of such other Debt Securities; and

(viii) "**series**" means a tranche of Debt Securities, together with any further tranche or tranches of Debt Securities that in relation to each other and to the original tranche of Debt Securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series, and includes the Notes and any further issuances of Notes;

(b) Convening Meetings of Noteholders

A meeting of Noteholders:

(i) may be convened by the Issuer at any time; and

(ii) will be convened by the Issuer if an Event of Default in relation to the Notes has occurred and is continuing and a meeting is requested in writing by the holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding.

(c) Quorum

(i) The quorum at any meeting at which Noteholders will vote on a proposed modification to, or a proposed modification of:

(A) a Reserved Matter will be one or more persons present or represented at the meeting and holding not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding; and

(B) a matter other than a Reserved Matter will be one or more persons present or represented at the meeting and holding not less than 50 per cent. of the aggregate principal amount of the Notes then outstanding.

(ii) The quorum for any adjourned meeting will be one or more persons present or represented at the meeting and holding;

(A) not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed Reserved Matter modification or a proposal relating to a Reserved Matter; and

(B) not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a non-Reserved Matter modification or any proposal relating to a matter other than a Reserved Matter.

(d) Non-Reserved Matters

These Conditions and any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) may be modified in relation to any matter other than a Reserved Matter with the consent of the Issuer and:

(i) the affirmative vote of a holder or holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a holder or holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

(e) Reserved Matters

Except as provided by Condition 12(f) (*Cross-Series Modifications*) below, these Conditions and any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) may be modified in relation to a Reserved Matter with the consent of the Issuer and:

(i) the affirmative vote of a holder or holders of not less than 75 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a holder or holders of not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding.

(f) Cross-Series Modifications

In the case of a Cross-Series Modification (and/or a proposal in respect of a Cross-Series Modification), these Conditions and Debt Securities of any other series, and any agreement (including the Fiscal and Paying Agency Agreement) governing the issuance or administration of the Notes or Debt Securities of such other series, may be modified in relation to a Reserved Matter with the consent of the Issuer and:

(i) the affirmative vote of not less than 75 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the holders of the Debt Securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification; or

(ii) a written resolution signed by or on behalf of the holders of not less than 66 2/3 per cent. of the aggregate principal amount of the outstanding Debt Securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification;

and

(i) the affirmative vote of more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the holders of each series of Debt Securities (taken individually) that would be affected by the proposal and/or proposed modification; or

(ii) a written resolution signed by or on behalf of the holders of more than 50 per cent. of the aggregate principal amount of the then outstanding Debt Securities of each series (taken individually) that would be affected by the proposal and/or proposed modification.

(g) Partial Cross-Series Modification

If a proposed Cross-Series Modification is not approved in relation to a Reserved Matter in accordance with Condition 12(f) (*Cross-Series Modifications*), but would have been so approved if the proposed modification had involved only the Notes and one or more, but less than all, of the other series of Debt Securities affected by the proposed modification, that Cross-Series Modification will be deemed to have been approved, notwithstanding Condition 12(f) (*Cross-Series Modifications*), in relation to the Notes and Debt Securities of each other Series whose modification would have been approved in accordance with Condition 12(f) (*Cross-Series Modifications*) if the proposed modification had involved only the Notes and Debt Securities of such other series, provided that:

(i) prior to the Record Date for the proposed Cross-Series Modification, the Issuer has publicly notified holders of the Notes and other affected Debt Securities of the conditions under which the proposed Cross-Series Modification will be deemed to have been approved if it is approved in the manner described above in relation to the Notes and some but not all of the other affected Series of Debt Securities; and

(ii) those conditions are satisfied in connection with the proposed Cross-Series Modification.

(h) Written Resolutions

A "written resolution" is a resolution in writing signed by or on behalf of Noteholders of the requisite majority of the Notes and will be valid for all purposes as if it was a resolution passed at a quorate meeting of Noteholders duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more Noteholders.

(i) Binding Effect

A resolution duly passed at a quorate meeting of Noteholders duly convened and held in accordance with these provisions, and a written resolution duly signed by the requisite majority of Noteholders, will be binding on all Noteholders, whether or not the Noteholder was present at the meeting, voted for or against the resolution or signed the written resolution.

(j) Manifest Error, Technical Amendments, etc.

Notwithstanding anything to the contrary herein, these Conditions and any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) may be modified by the Issuer without the consent of Noteholders:

(i) to correct a manifest error or cure an ambiguity; or

(ii) if the modification is of a formal or technical nature or for the benefit of Noteholders.

The Issuer will publish the details of any modification of the Notes made pursuant to this Condition 12(j) (*Manifest Error, Technical Amendments, etc.*) within ten days of the modification becoming legally effective.

(k) Outstanding Notes; Notes Controlled by the Issuer

In determining whether Noteholders of the requisite principal amount of outstanding Notes have voted in favour of a proposed modification or whether a quorum is present at any meeting of Noteholders called to vote on a proposed modification, a Note will be deemed to be not outstanding, and may not be voted for or against a proposed modification or counted in determining whether a quorum is present, if on the record date for the proposed modification:

(i) the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued;

(ii) the Note has previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligation to make all payments due in respect of the Note in accordance with its terms; or

(iii) the Note is held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer and, in the case of a Note held by any such above-mentioned corporation, trust or other legal entity, the holder of the Note does not have autonomy of decision, where:

(A) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;

(B) a corporation, trust or other legal entity is controlled by the Issuer or by a department, ministry or agency of the Issuer if the Issuer or any department, ministry or agency of the Issuer has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and

(C) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Issuer: (x) the holder may not, directly or indirectly, take instruction from the Issuer on how to vote on a proposed modification; or (y) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or (z) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this Condition 12(k) (*Outstanding Notes; Notes Controlled by the Issuer*).

(l) Modification

The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of any of the provisions of the Fiscal and Paying Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, such modification shall be notified to the Noteholders as soon as practicable.

13 Further Issues

The Issuer may from time to time, without notice to or the consent of the holders of Notes, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects save for the date for and amount of the first payment of interest thereon) so as to form a single series with the Notes.

Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may adversely affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

14 Notices

Notices required to be given to Noteholders may be delivered in person or sent by mail or facsimile transmission or telex to them at their respective addresses, facsimile or telex numbers reflected in the Register.[1] Any such notice shall be deemed to have been given, in the case of a letter delivered by hand, at the time of delivery, in the case of a letter sent by mail, at the time of dispatch or, in the case of a telex, on receipt of an answerback confirmation by the sender.

So long as any of the Notes are represented by the Global Notes, notices required to be published in accordance with Condition 14 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders. Any such notice shall be deemed to have been given to such Noteholders on the day on which such notice is delivered to such clearing system.

15 Currency Indemnity

The Euro is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the Euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any holders of Notes in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the Euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Euro amount is less than the Euro amount expressed to be due to the recipient under any Note, the Issuer shall indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from other obligations of the Issuer, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holders of Notes and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any judgment or order.

16 Governing Law and Jurisdiction

(a) Governing Law

The Fiscal and Paying Agency Agreement and the Notes and any matter, claim or dispute arising out of or in connection therewith, whether contractual or non-contractual are governed by and shall be construed in accordance with English law.

(b) Jurisdiction

(i) Subject only to Condition 16(b)(ii), the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes) ("**Proceedings**") may be brought only in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(ii) However, the provisions of Condition 16(b)(i) are made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Agent for Service of Process

The Issuer has in the Fiscal and Paying Agency Agreement irrevocably appointed the Embassy of the Republic of North Macedonia in London from time to time of Suite 2.1 and 2.2, Buckingham Court, 75-83 Buckingham Gate, London, SW1E 6PE, United Kingdom as its authorised agent in England to receive service of process in any Proceedings in England based on any of the Notes. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Consent to Proceedings

Subject to Condition 16(e) (*Waiver of State Immunity*) below, the Issuer has irrevocably and generally consented in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

(e) Waiver of State Immunity

To the extent that North Macedonia may in any jurisdiction claim for itself or its assets or revenues immunity from suit, arbitral proceeding, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal or arbitral process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to North Macedonia or its respective assets or revenues, North Macedonia agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws and regulations of such jurisdiction, save that such waiver of immunity constitutes only a limited and specific waiver by the Issuer for the purposes of the Notes and under no circumstances shall it be construed as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes. The Issuer does not waive any immunity with respect to (i) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) any other property or assets, including the rights used solely or mainly for official state purposes in the Republic of North Macedonia or elsewhere, (iv) military property or military assets of the Republic of North Macedonia related thereto, (v) claims of the Republic of North Macedonia on the basis of taxes, contributions and other public duties, or (vi) the natural resources and objects of historical and artistic heritage as referred to in Article 56 of the Constitution of the Republic of North Macedonia.

17 Rights of Third Parties

Any person who is not a Noteholder has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any of the Terms and Conditions of the Notes.

FORM OF NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes. Capitalised terms used but not defined herein have the meanings provided in the section entitled "*Terms and Conditions of the Notes*".

1 Form of Notes

The Regulation S Notes will be represented by interests in a global note, in fully registered form, without interest coupons attached (the "**Unrestricted Global Note**") which will be deposited on or about the Issue Date with a common depositary for, and registered in the name of a nominee for, the common depositary for the accounts of Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes will be represented by interests in a global note in fully registered form without interest coupons attached (the "**Restricted Global Note**" and together with the Unrestricted Global Note, the "**Global Notes**") which will be deposited on or about the Issue Date with a common depositary for, and registered in the name of a nominee for, the common depositary for the accounts of Euroclear and Clearstream, Luxembourg. The Restricted Global Note (and any Definitive Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Note as set forth below.

The Global Notes will each have an ISIN number and a Common Code.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "**Definitive Note Certificate**" or "**Definitive Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Note or, as the case may be, the Unrestricted Global Note and interests therein.

Except in the limited circumstances described below, owners of interests in a Global Note will not be entitled to receive physical delivery of individual note certificates.

2 Euroclear and Clearstream Arrangements

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form ("**book-entry interests**"). The holdings of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the Register to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership of Notes will be held though financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of the Global Notes, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Global Notes for all purposes under the Fiscal and Paying Agency Agreement. Consequently, none of the Republic, the Fiscal Paying Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Participants must rely on the procedures of Euroclear and Clearstream, Luxembourg, and indirect participants must rely on the procedures of the participants through which they own book-entry interests, to transfer the interests or in order to exercise any rights of holders of the Notes.

Euroclear and Clearstream, Luxembourg have advised us that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Notes are credited and only in respect of the portion of the aggregate principal amount of Notes for which the participant or participants has or have given direction. Euroclear and Clearstream, Luxembourg will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, Euroclear and Clearstream, Luxembourg reserve the right to exchange the Global Notes for definitive registered Notes in certificated form, and to distribute those definitive registered Notes to its participants.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The book-entry interests will trade through participants of Euroclear or Clearstream, Luxembourg and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any book-entry funds where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand the following with respect to Euroclear and Clearstream, Luxembourg:

- Euroclear and Clearstream, Luxembourg hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of those participants. Euroclear and Clearstream, Luxembourg provide to their participants, among other things, services for safekeeping administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets.
- Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear and Clearstream, Luxembourg participant, either directly or indirectly.

3 Exchange of Interests in the Global Note

The Restricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for individual note certificates ("**Restricted Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) following a failure to pay principal when due and payable in respect of any Rule 144A Note, in each case where the Fiscal Agent has received a request from the registered holder of the Restricted Global Note requesting exchange of the Restricted Global Note for Restricted Note Certificates. In such circumstances, such Restricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Republic will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for individual note certificates ("**Unrestricted Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or (b) following a failure to pay principal when due and payable in respect of any Regulation S Note, in each case where the Fiscal Agent has received a request from the registered holder of the Unrestricted Global Note requesting exchange of the Unrestricted Global Note for Unrestricted Note Certificates. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Republic will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together, "**Definitive Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Definitive Note Certificates and the Republic will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Note holders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Republic and such Registrar may require to complete, execute and deliver such Definitive Note Certificates and (ii) in the case of the Restricted Global Note only, a fully completed, signed certification (in the form provided in the Fiscal and Paying Agency Agreement) substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Definitive Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Book-entry interests in the Restricted Global Note ("**restricted book-entry interests**") may be transferred to a person who takes delivery in the form of book-entry interests in the Unrestricted Global Note ("**unrestricted book-entry interests**") only upon delivery by the transferor of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) to the effect that the transfer is made in accordance with Regulation S and in accordance with any applicable securities laws of any state of the U.S. or any other jurisdiction.

Unrestricted book-entry interests may be transferred to a person who takes delivery in the form of restricted book-entry interests only upon delivery by the transferor of a written certification to the effect that the transfer is being made to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the U.S. or any other jurisdiction.

Any book-entry interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a book-entry interest in the other Global Note will, upon transfer, cease to be a book- entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note, and accordingly, will thereafter be subject to all transfers, if any, and other procedures applicable to book-entry interest in that other Global Note for as long as that person retains the book- entry interests.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "*Transfer Restrictions*" below, or upon specific request for removal of the legend on a Restricted Note Certificate, the Republic will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Definitive Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

4 Secondary Market Trading in Relation to the Global Notes

Upon their original issue, the Notes will be in global form represented by Global Notes. Interests in the Notes will be in uncertificated book-entry form. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

5 Notices

So long as the Global Notes are held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by a beneficial interest in the Global Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System; except that, so long as the Notes are admitted to trading on the London Stock Exchange, the rules of the London Stock Exchange have been complied with.

6 Record Date

Notwithstanding Condition 7(f), each payment in respect of a Global Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note is being held is open for business.

7 Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Issue Date, which could be more than two business days following the date of pricing. Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States prior to the relevant Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Issue Date should consult their own advisers.

8 Transfer Restrictions

Each purchaser of Notes will be deemed to have represented and agreed as follows:

- the purchaser (a) (i) is a QIB within the meaning of Rule 144A, (ii) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A or (b) is purchasing the Notes in an offshore transaction pursuant to and in accordance with Regulation S;

- the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws;

- the Restricted Global Note and any Restricted Note Certificate will bear a legend to the following effect, unless the Republic determines otherwise in accordance with applicable law:

  "THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE REPUBLIC OF NORTH MACEDONIA THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), OR (4) TO THE REPUBLIC OF NORTH MACEDONIA OR ITS AFFILIATES".

- it understands that the Republic, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Republic and the Joint Lead Managers;

- if it is acquiring any Notes for the account of one or more QIBs, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

- it acknowledges that neither the Republic, the Joint Lead Managers nor any person representing the Republic or the Joint Lead Managers, has made any representation to it with respect to the Republic or the offer or sale of any of the Notes, other than the information contained in this Offering Circular, which Offering Circular has been delivered to it and upon which it is relying in making an investment decision with respect to the Notes. It acknowledges that the Joint Lead Managers made no representation or warranty as to the accuracy or completeness of this Offering Circular.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer for budget support in 2021 and to refinance its maturing public debt liabilities.

OVERVIEW OF THE REPUBLIC OF NORTH MACEDONIA

Area and Population

The Republic of North Macedonia (the "**Republic**" or "**North Macedonia**") is located in Southeast Europe with a total area of 25,713 square kilometres. North Macedonia is bordered by five countries: Serbia and Kosovo to the North, Bulgaria to the East, Greece to the South and Albania to the West. Approximately 80% of the terrain of North Macedonia is mountainous, rising to its highest point at Mount Korab along its western border, with an elevation of 2,764 metres. The Vardar River runs north to south through the centre of North Macedonia and connects the country, through Greece, with the ports of the Aegean Sea. North Macedonia has a moderate continental climate with four distinct seasons.

North Macedonia had an estimated population of approximately 2.1 million as at 31 December 2018 of whom approximately 553,187 lived in Skopje, the political, administrative and commercial centre of North Macedonia. After Skopje, the largest cities are Bitola, Kumanovo, Prilep and Tetovo, with populations ranging from 50,000 to over 100,000 people. Ethnic Macedonians comprise approximately 64.2% of the population, with ethnic Albanians comprising 25.2%, and the balance consisting of Turks (3.9%), Romas (2.7%), Serbs (1.8%), Bosnians (0.8%), Vlachs (0.5%) and other ethnic groups.

History

During World War II, harsh rule by occupying forces encouraged many Macedonians to support the resistance movement led by the partisans and Marshal Tito, who became Yugoslavia's president when the war ended. Following World War II, Macedonia became a constituent republic (federal unit) of the Socialist Federal Republic of Yugoslavia, with the name "Socialist Republic of Macedonia".

Macedonia, like other republics that constituted Yugoslavia, declared its independence in November 1991. Following elections held in late 1990 which resulted in a multi-party elected assembly, a democratically elected government took office in January 1991, and shortly thereafter the name officially became the "Republic of

Macedonia". Macedonia held a national referendum in September 1991 on establishing a sovereign state based on a parliamentary democracy, and later that month the parliament formally declared independence from Yugoslavia. Macedonia adopted a new constitution on 17 November 1991.

The first government was led by Prime Minister Nikola Kljusev, and Kiro Gligorov became the first President of the newly-independent Republic. Macedonia was admitted to the United Nations (the "**UN**") in 1993, under the name "the former Yugoslav Republic of Macedonia", reflecting certain objections to the use of "Macedonia" by Greece, though many countries had recognised Macedonia under its constitutional name, "Republic of Macedonia". See "— *International Relations — Regional Relations — Relations with Greece*".

Unlike most of the former Yugoslavia, Macedonia did not experience ethnic conflict during the process of secession. While tensions between ethnic Albanians and Macedonians remained following independence, there was no open conflict between these ethnic groups comparable to the ethnic strife experienced by other countries in the region at that time. However, in February 2001, ethnic Albanians, influenced by the Kosovo crisis, carried out attacks against government forces of the Republic of North Macedonia in the region near the Kosovo border, and the hostilities spread to northern and western parts of Macedonia. Following a cease-fire in June 2001, the President of Macedonia and the leaders of major political parties, supported by the EU and the United States, signed the Ohrid Framework Agreement (the "**Framework Agreement**") in August 2001, which called for the implementation of political, constitutional and administrative reforms to improve rights for minority groups in Macedonia. These reforms were adopted by the Assembly of the Republic of North Macedonia (*Sobranie*) (the "**Assembly**") in November 2001, and included, among others, the decentralisation of power from the Government to local municipalities, the creation of new municipal borders within Macedonia, the granting of equal status to the Albanian language as well as to other languages in areas where the ethnic communities exceed a certain percentage of the population, and an expanded role for ethnic minority communities in public institutions.

Since its introduction, the Framework Agreement has facilitated the introduction of new laws designed to ensure the political, social and cultural participation of all ethnic communities in North Macedonia. For example, it has paved the way for the usage of the Albanian language in local government, the Assembly of North Macedonia and in education and other public forums.

In April 2001, Macedonia signed the SAA with the EU, thereby taking an important step towards EU membership. Since the SAA entered into force on 1 April 2004, the Republic has focused on the implementation of the legal, administrative, institutional, and economic reforms required under the SAA, with the aim of ultimately acquiring EU membership. Macedonia formally submitted its application for EU membership on 22 March 2004 and, on 17 December 2005, it was granted candidate country status by the European Council.

One year after the signing of the Framework Agreement, parliamentary elections were held on 15 September 2002. Elections were conducted according to a proportional electoral model in six constituencies, which has become the basis for subsequent elections.

Between 2015 and 2016, North Macedonia faced a period of political turmoil and crisis which affected, among other things, the implementation of EU-related reforms. The EU offered to mediate between the opposing political parties in an effort to re-stabilise the country and maintain its course towards EU membership. On 2 June 2015, facilitated by the EU, the four main political parties (the Internal Macedonian Revolutionary Organisation-Democratic Party of Macedonian National Unity ("**VMRO-DPMNE**" or "**VMRO**"), SDSM, the Democratic Union for Integration ("**DUI**") and Democratic Party of Albanians ("**DPA**") reached an agreement to hold early elections on 24 April 2016, resulting in renewed political dialogue among these parties. This agreement also established a list of reform activities in areas such as rule of law, public administration, freedom of expression, media, electoral reform, inter-ethnic relations, fundamental rights and economic governance. The four main political parties agreed on these measures, assigned responsible parties for each and deadlines to meet certain targets. In September 2015, in accordance with the agreement, the major political parties agreed on the appointment of a new special prosecutor to lead the investigation of claims of illegal surveillance activity in the Government. On 10 November 2015, the Assembly approved legislation to elect an interim government 100 days prior to scheduled elections, with interim additional deputy ministers, in advance of the April 2016 elections. Representatives of the biggest opposition party became ministers of the Ministry of the Interior and the Ministry of Labour and Social Policy, and additional deputy ministers at the Ministry of the Interior, the Ministry of Labour and Social Policy, the Ministry of Finance, the Ministry of Agriculture and the Ministry of Information Society and Administration. Any individual appointed as an additional deputy minister cannot be from the same political party as the minister to which the individual will be serving as additional deputy. Additional deputy ministers were granted specific approval powers with respect to actions related to personnel, legal and financial matters in connection with the April 2016 elections.

Following two consecutive postponements, elections were held on 11 December 2016, and on 31 May 2017, the parliament of the Republic of North Macedonia voted in a new coalition government led by the SDSM and two ethnic Albanian junior coalition parties: the DUI and DR-DPA.

On 20 October 2019, Prime Minister Zoran Zaev called for a snap election following the decision by EU leaders to postpone the commencement of EU membership talks with North Macedonia. The elections had originally been scheduled for 12 April 2020 but have been delayed due to the outbreak of the COVID-19 pandemic. In January 2020, in accordance with the amendments on the Law on Government adopted by the Assembly in 2018, whereby 100 days ahead of every general election, an interim government will be established to ensure free and fair elections, an interim government was approved and appointed by the Assembly. The interim government was led by former interior minister Oliver Spasovski until the parliamentary elections on 15 July 2020. The SDSM won the July 2020 elections with 46 MPs, while VMRO-DPMNE had 44 MP's. Along with coalition partners DUI and DPA, Mr. Zaev continued as Prime Minister in his second term. See "*—Overview of the Current Political Situation – Assembly Elections 2020*".

On 17 June 2018, the Hellenic Republic and the Republic of Macedonia signed the Prespa Agreement (defined below) ending the dispute over the legal name of North Macedonia. The Agreement came into force on 12 February 2019. See "*—International Relations—Relations with Greece*". The resolution of this dispute removed an important obstacle for NATO accession. On 27 March 2020, by submission of the instrument of accession to the U.S. Department of State, the Republic of North Macedonia became the 30th member of NATO. See "*—International Relations—NATO Accession*".

In March 2020, the European Council endorsed the decision to open EU accession negotiations with the Republic of North Macedonia, noting that North Macedonia has demonstrated its determination to advance the EU reform agenda and had delivered tangible and sustained results, fulfilling the conditions identified by the Council in June 2018. The EC presented the draft NF for North Macedonia on 3 June 2020, opening the process of consultations with member states which remains on-going, pending discussions with Bulgaria. See "*—International Relations—EU Accession*".

Political System and Government Structure

The Constitution

Soon after the first free and direct multi-party parliamentary elections were held on 11 November 1990, the newly elected Assembly adopted the Declaration on the Sovereignty of the Socialist Republic of Macedonia (the "**Declaration**"). The Declaration described the basic principles of the new State, including the maintenance of positive relations with neighbouring states and respect for fundamental human rights. On the basis of the Declaration, the Assembly issued notice of a public referendum that, when it passed with 95% of the vote on 8 September 1991, led to the formal establishment of the Republic of Macedonia as a sovereign and independent

State. The Constitution of the Republic of Macedonia was adopted on 17 November 1991 in order to create an institutional framework for the development of parliamentary democracy and to guarantee civil liberties (the "**Constitution**"). After several months of ethnic conflict in 2001, amendments to the Constitution of the Republic of Macedonia (the "**Constitutional Amendments**") were ratified in November 2001 as part of the Framework Agreement. The principal changes introduced by the Constitutional Amendments were the recognition of languages spoken by at least 20% of ethnic minorities living in North Macedonia, in accordance with the law, and increased access for ethnic minorities to public sector jobs. The Constitution guarantees equality before the law and contains a non-discrimination clause that prohibits discrimination on the basis of sex, race, religion or national, social or political affiliation.

On 11 January 2019, the Assembly enacted four new constitutional amendments aimed at providing full legal implementation of the Prespa Agreement signed with Greece on 17 June 2018. The Prespa Agreement resolved the longstanding issue between North Macedonia and Greece surrounding the previous constitutional name of North Macedonia, the "Republic of Macedonia". These constitutional amendments (i) officially and legally changed the name of the country to the "Republic of North Macedonia", (ii) changed the short name to "North Macedonia", (iii) changed the nationality to "Macedonian" and/or "citizens of the Republic of North Macedonia" (to be reflected in all travel documents within five years of the date of the Prespa Agreement) and (iv) affirmed the political position that North Macedonia has no territorial claims to any of its neighbouring countries. The resolution of this dispute also settled the issue of the name of North Macedonia in the context of the United Nations, enabled the accession of the Republic of North Macedonia to NATO on 27 March 2020 and enabled the EU Member States to start accession negotiations with North Macedonia on 26 March 2020.

The President

The President of the Republic is the head of State, elected by majority vote in direct elections, for a term of five years. No person may serve more than two terms as President. The current President, Mr. Stevo Pendarovski, was elected in May 2019. The President represents North Macedonia domestically and internationally, is the commander in chief of the armed forces and presides over the Security Council of North Macedonia. In the event that the Assembly is not able to sit, the President has the power to declare a state of war or a state of emergency and may also appoint or dismiss the Government or individual officials.

The President may negotiate international agreements on behalf of North Macedonia, appoint and recall ambassadors and envoys and receive letters of credence and letters of recall from foreign diplomatic representatives. The President promulgates the laws together with the president of the Assembly, gives the mandate to form a government, appoints three members to the country's Security Council, proposes candidates for the Council of Inter Ethnic Relations, nominates two judges for the Constitutional Court and two members of the State Judicial Council of the Republic (the "**Judicial Council**"), and performs other duties defined by the Constitution.

The Assembly

The unicameral Assembly is the legislative body of North Macedonia. Its powers include amending the Constitution, passing laws and resolutions, and ratifying international agreements. All members of the Assembly serve four-year terms. The latest Assembly elections were held on 15 July 2020 and the next elections will be held in 2024.

The Assembly consists of 123 seats, of which 120 seats are elected from six constituencies in North Macedonia using closed list proportional representation, with seats allocated using the d'Hondt method, which is a highest averages method, and thus a type of party-list proportional representation. The remaining three seats are single-member constituencies elected by citizens of North Macedonia living abroad. These overseas seats are only validated if voter turnout reaches a certain threshold. As overseas voter turnout did not reach the required threshold in the July 2020 elections, these seats are currently vacant.

A majority of Assembly members forms a quorum. Laws are passed by a majority vote of Assembly members in attendance, but no less than one-third of the total members, in so far as the Constitution does not provide for a qualified majority for certain decisions. A two-thirds majority vote is required to pass systemic laws, motions for impeachment, motions to discharge members of the Assembly ("**MPs**"), constitutional changes, and other issues as stipulated in the Constitution and pertinent laws. In addition, a majority vote of the total number of members of the Assembly is required for the election of judges in the Constitutional Court and to call a referendum on matters which fall under the competence of the Assembly. Furthermore, the adoption of laws that directly impact the culture, language, education, personal documentation, and use of symbols of North Macedonia requires a majority vote from MPs in attendance that belong to the non-majority communities in the Republic of North Macedonia.

Government

The Government consists of the Prime Minister as the head of the Government, four Deputy Prime Ministers and 16 other ministers. The Government is elected by an absolute majority vote in the Assembly. The Prime Minister and the Government's programme are approved by an absolute majority vote of the Assembly. The current Prime Minister, Zoran Zaev, was confirmed by the Assembly on 30 August 2020. This was the start of the second mandate of Mr. Zaev as Prime Minister, after his party won the early elections on 15 July 2020. Government ministers are proposed by the Prime Minister and elected and discharged by the Assembly. The Government is responsible for policy making, implementation of its four-year Government Programme, proposing legislation to the Assembly, drafting the national budget, overseeing the work of ministries and other public administrative bodies and nominating, appointing and discharging public officials.

Recent Developments

Elections

Assembly elections were held on 15 July 2020. The major-government party, SDSM, won the election by winning 46 MPs, the major-opposition party, VMRO-DPMNE, won 44 MPs, DUI won 15 MPs, AA won 12 MPs, the Left (Levica) won 2 MPs and DPA won 1 MP. Prime Minister Zoran Zaev was confirmed by the Assembly on 30 August 2020 for a second term.

Action 21

On 21 December 2020, the Government launched a special plan, titled "Action 21-bringing European standards home" ("**Action 21**") to action the strategic priorities of the Republic in the areas of rule of law reforms and the economy without waiting for official opening of negotiations with the EU. Action 21 is divided into ten key areas, outline below, along with key achievements.

(1) *Judiciary*. Reforms include an evaluation of all judges and a review of the assets of judges and prosecutors; in addition, the public prosecutor's office will regularly inform the general public regarding its work and progression, in particular on cases relating to organised crime and corruption. See *"—The Judicial System—Judicial System Reform"*.

(2) *Anti-Corruption*. The Government has mandated an increase in transparency and accountability in financial transactions with municipalities. The Government has reduced the number of ministers and has dismissed several directors of government agencies and public enterprises for violating the Government's code of ethics. *"—The Judicial System—Anti-corruption measures—GRECO."*

(3) *Environmental protection*. For 2021, the Government has allocated MKD 100 million towards the reduction of air pollution, to replace non-ecological heating systems, increase energy efficiency and renewal of urban greenery, and a further EUR 70 million to provide ecologically clean buses in Skopje. The government has increased fines for environmental violations up to 20 times the original fine. The

ministry of environment and spatial planning is in the process of creating a new law to establish a municipal-police which will allow existing municipal inspectors and eco-patrols to jointly take action against perpetrators of harmful activities.

(4) *COVID-19*. The Republic has applied for approximately 833,000 doses of COVID-19 vaccines through COVAX, led by the Coalition for Epidemic Preparedness Innovations and the WHO. The Republic has procured an additional 800,000 doses of vaccines through a direct contract with Pfizer and another 200,000 doses through a direct contract for the Sinopharm vaccine for a population of approximately 400,000 citizens. The Republic of Serbia made an initial donation to North Macedonia on 14 February 2021 of 4,680 doses of the Pfizer vaccine and a further 3,320 doses were donated by Serbia on 24 February 2021. The vaccination process started on 17 February 2021 in the modular hospital at the University Clinic for Infectious Diseases and Febrile conditions, with the first batch of vaccines used for the health workers across North Macedonia, who are directly working with COVID-19 patients. After health workers the next priority group will be people over the age of 70 with a high risk of disease and complications. A further 25,000 doses from the COVAX mechanism are expected to arrive in March 2021. The Government is also working with the EU and the European Solidarity Fund to secure additional doses of vaccines.

(5) *Cannabis industry*. The Government will continue to support the cannabis industry for medical purposes and for the production of products from cannabis. The Republic has approved 59 licenses by companies for this activity so far.

(6) *Energy and infrastructure investment*. The Government has committed over EUR 80 million for the construction of road infrastructure, sewers and water supply systems in the municipalities. In addition, the Government has announced new investments in thermal power including for three new photovoltaic power plants and a new gas power plant. Construction of a gas pipeline between North Macedonia and Greece is expected to commence in 2022.

(7) *Census*. The Government has announced it will undertake a national census in 2021. North Macedonia's last census was in 2002. The Government aims to conduct the census according to EU standards. A law on the census was passed in parliament on 26 January 2021.

(8) *Counter misinformation and prevent the damage caused by fake news*. The Government has announced extensive consultations with the media industry and civil society regarding the fight against misinformation, hate speech and other forms of hybrid threats against democracy. The Government has enacted a plan of action and developed a protocol for crisis communications between the central government communication service and the ministries.

(9) *New capital flows*. The Government aims to stimulate the financial market and new investments through a series of new policies. For example, it is in the process of amending the law on property tax, legalising cars with foreign license plates, and introducing incentives and benefits for saving into bank accounts.

(10) *Reform of primary education*. The Government's education reform agenda includes media and digital literacy, anti-corruption content, ecology. It also includes content and hygiene classes in the fight against COVID-19.

COVID-19 and EU Assistance

The EC has granted North Macedonia access to the Joint Procurement Agreement, European Solidarity Fund and EU centre for prevention and disease control. Through these mechanisms, North Macedonia has received assistance and equipment including personal protective equipment ("**PPE**"), consumables and medicine equipment. To date, the EU has pledged EUR 70 million in support for the Western Balkans, including the Republic, for the purchase of COVID-19 vaccines. The EU has also allocated North Macedonia EUR 4 million from the EU Integration Facility ("**EUIF**") to procure medical equipment and PPE. In April 2020, the EC adopted a proposal to provide €160 million in Macro-Financial Assistance to North Macedonia and the first instalment of this funding in the amount €83 million was disbursed in October 2020 and the second instalment is expected to be available in the first half of 2021. The ECB has also supported the NBRNM during the COVID-19 crisis by approving a bilateral repo line arrangement in August 2020, worth up to €400 million. This provides the NBRNM with access to euro liquidity for the first time if supported by adequate collateral. In February 2021, the repo line was extended and will remain in place until March 2022.

The Judicial System

In the Republic of North Macedonia, the judicial system is composed of the Constitutional Court of the Republic of North Macedonia, the Supreme Court of the Republic of North Macedonia, four Appellate Courts, the High Administrative Court, the Administrative Court, and 27 courts of first instance (the "**Basic Courts**").

The Constitution provides for the independence of courts and states that cases are to be adjudicated only on the basis of the Constitution, laws and ratified international agreements and treaties.

Pursuant to the Law on Courts (the "**Law on Courts**"), each of the 27 Basic Courts covers a designated geographic area. Basic Courts have general jurisdiction and handle civil, criminal, commercial, labour, family and other types of cases. Article 32 of the Law on Courts provides for the establishment of a specialised department within the criminal division of Basic Courts to handle organised crime and corruption cases. This is a national department covering the whole territory of the Republic of North Macedonia, with sub-divisions located in each Basic Court.

There are four appellate courts, located in Skopje, Bitola, Gostivar and Shtip, which exercise appellate jurisdiction over the Basic Courts. The Supreme Court is the highest court, serving a variety of roles, including providing uniformity in the implementation of the laws of North Macedonia by the courts and thus acts as a court of final resort (extraordinary legal remedies).

The Administrative Court has original jurisdiction over administrative disputes for the entire territory of the Republic of North Macedonia. The High Administrative Court decides on the appeals for decisions made by the Administrative Court and is the arbiter for cases involving conflicts between various administrative and municipal bodies.

The Constitutional Court follows a continental European model, and rules on the constitutionality of laws as well as the constitutionality and legality of secondary legislation. It is vested with authority to protect certain rights and freedoms such as freedom of expression, the right to assembly and the right to equality. Further, the Constitutional Court adjudicates conflicts between the central and local governments and amongst holders of legislative, judicial and executive office. In addition, it decides on the accountability of the President of the Republic. The Constitutional Court's rulings are final and not subject to review.

Judges for the Basic Courts, Appellate Courts, Administrative Court, High Administrative Court and Supreme Court are elected and appointed by the Judicial Council. According to the Constitution, the Judicial Council is independent of the judiciary. The Judicial Council is composed of 15 members, eight of whom are judges elected by their peers. Three of the elected judges are from minority communities in the Republic of North Macedonia. Three council members are elected by the Assembly by simple majority vote and in addition, a majority vote by members of the Assembly who are minority communities. Two members are elected by the Assembly based on a proposal from the President of the Republic of North Macedonia, one of whom shall be a member of a minority community. The President of the Supreme Court and the Minister of Justice (who do not have a right to vote) are members of Judicial Council *ex officio*. The new Law on the Judicial Council enacted on 22 May 2019 stipulates that *ex officio* members will not participate in Council sessions where the question concerns the responsibility, election or dismissal of a judge or the president of the court.

All members of the Judicial Council are elected to six-year terms with the right to one re-election upon expiration of a six-year term. The Judicial Council has primary responsibility for the election and dismissal of judges. It also conducts an annual assessment of the judges' work and is responsible for implementation of measures intended to protect judicial independence and impartiality. In 2015, a new judiciary body, the Council for the Establishment of Facts and Initiation of a Disciplinary Procedure, was established to investigate petitions and complaints against judges. Also in 2015, the Council of Europe issued an opinion on the Laws on Disciplinary Liability and Evaluation of Judges of "The Former Yugoslav Republic of Macedonia" to improve the accountability of the Macedonian judiciary. It provided guidelines as to necessary revisions relating to, *inter alia*, disciplinary violations and sanctions, dismissal of judges and disciplinary bodies and procedures. Accordingly in 2017, the Law on the Council for the Establishment of Facts and Initiation of a Disciplinary Procedure was rescinded and the Council for the Establishment of Facts and Initiation of a Disciplinary Procedure was disbanded accordingly. The investigative function of the council was transferred to the Judicial Council.

In 2019, the Assembly adopted the new Law on the Judicial Council, incorporating the function of managing disciplinary proceedings for judges based on the recommendations of the Venice Commission of the Council of Europe.

The Constitution, the Law on Courts and other substantive and procedural legislation pertaining to the judiciary are intended to provide essential institutional and functional guarantees for the independence and impartiality of the judiciary of North Macedonia. To this end, they have established doctrine including lifetime appointment of judges (subject to grounds for dismissal as provided for in the Constitution, and with the exception of Constitutional Court judges, who are elected for nine-year terms), judicial immunity and protections from transfer to another court, together with other features in alignment with generally accepted principles and norms of European and international law.

Judicial System Reform

The Government conducted a full revision of the strategy for reform of the judicial system from 2016 to 2020, which addressed the findings of the EC Progress Report and targeted the establishment and implementation of various policies in the following six areas: (i) the judiciary, (ii) the criminal legal system, (iii) access to justice, (iv) sector policy and implementation of EU law, (v) administrative law and (vi) IT and e-Justice.

The revised judicial system strategy sets out guidelines for improving the judicial system by overcoming existing normative and institutional deficiencies within the system, as well as interference by the executive branch and the influences of partisanship as the primary causes of problems in the judicial sector. In addition, these guidelines aim to create an environment for the proper application by the judiciary of principles of liability, which have been lacking in recent years, primarily in the courts and the public prosecutor's office.

The revised judicial system strategy was adopted on 28 November 2017 and implementation remains on-going in 2020. In the EU Commission's Report on North Macedonia in 2020, they noted "good progress" in relation to the Republic's implementation of the judicial reform strategy. In line with the judicial system strategy, the Ministry of Justice prepared new laws on topics such as management of court cases, private international law, criminal procedure and payment of compensation to victims of violent crime. These laws, apart from the Law on Criminal Procedure and the Law on compensation to victims of violent crime, were enacted in February 2020.

In line with the judicial system strategy, several new laws and amendments have been adopted:

- Amendments to the Law on Courts, adopted in February 2019, strengthening the ACMIS, introducing a new category for young judges, and adjusting the criteria for judicial and prosecutorial appointments in Basic Courts to account for candidates' ranking upon their completion of training in the Academy for

Judges and Prosecutors. These amendments also stipulate the establishment of an information technology centre with a database linked to the Judicial Information System within the Supreme Court of the Republic of North Macedonia.

- A Law on the Judicial Council, adopted in May 2019, prescribing changes in the system of appointment and promotion of judges, introducing qualitative criteria in the professional evaluation of judges and providing for the accountability and transparency of the Judicial Council in connection with judicial elections.
- The Law on Misdemeanours, adopted in May 2019, makes a distinction between the administrative and judicial misdemeanours (including the amount of the fine). This law has decreased the amount of the fines for legal and natural persons. The law furthermore prohibits other material laws from prescribing fines higher than those prescribed in the law.
- Laws on the Public Prosecutor's Office, adopted in February 2020 and entered into force in June 2020, regulating the transfer of cases from the Special Public Prosecutor's Office to the regular prosecution office.
- Amendments to the Law on the Council of the Public Prosecutor, adopted in February 2020, increasing the responsibility of council members in the performance of their duties and ensuring that they have a more active role by increasing the number of duties. The amendments include changes in the dismissal procedures for council members as well changes in the manner of election and voting of a council member.
- The Law on Court Case Management, adopted in February 2020, providing safeguards to ensure the smooth functioning of the court system.
- The Law on International Private Law, adopted in February 2020 and harmonised with the EU law on international private law.
- The Law on Administrative Disputes, adopted in May 2019 and applicable from May 2020 and harmonised domestic legislation with European principles in the resolving of administrative disputes. This law provides that a single judge of the Administrative Court shall decide in the first instance administrative disputes where the monetary value of the subject of the dispute does not exceed EUR 10,000 in MKD in value or where only procedural actions are raised. The law also introduced a reasonable time of nine months during which the court has to complete the case file within in order to meet the EU recommendations of having trials completed within a reasonable time. The changes seek to achieve greater efficiency of the administrative judiciary so that lighter cases will be resolved more quickly by a single judge.

The Council for Monitoring the Implementation of the Judicial Reform was established in April 2018 and acts as a forum for debate on the implementation of the judicial system strategy. The Council is chaired by the Minster of Justice and produces an annual report on the implementation of the strategy. The 2019-2020 Report on the Implementation of the Judicial Reform Strategy presents a general overview of the status of the action plan accompanying the judicial reform strategy. According to the report, by the end of 2020, of the 227 action points listed under the action plan, 114 have been implemented, 35 were on-going, 15 were delayed, 44 were being continually implemented, 13 have not been commenced and 6 were contingent on the adoption of legislation that had not been implemented. In accordance with the strategy, the Law on the Academy of Judges and Public Prosecutors was amended in 2018 to eliminate formal criteria for appointments to the Academy.

The Law on Free Legal Aid was adopted in May 2019 and published in the Official Gazette on 22 May 2019 This law provides legal aid to socially vulnerable citizens and expands the scope of persons who may seek free legal aid. The law also strengthens the capacities of the Ministry of Justice regional offices.

Anti-Corruption measures

The reduction of crime and corruption is a strategic priority for North Macedonia. Programmes for the prevention and repression of corruption and conflicts of interest have been implemented through a single action plan establishing strategic objectives to strengthen the institutions and legislation dedicated to preventing corruption and conflicts of interest; improve efforts to repress corruption; strengthen the capacities and independence of law enforcement bodies; increase public participation in the fight against corruption and conflicts of interest and coordinate anti-corruption activities, monitoring and evaluation with greater efficiency. The Anti-Corruption Action Plan was adopted by the State Commission for Prevention of Corruption ("**SCPC**") in accordance with the Law on Prevention of Corruption and the Law on Prevention of Conflicts of Interest to effectively coordinate anti-corruption activities on the national level for the period from 2016 to 2019.

The new Law on Public Prosecution was adopted in February 2020 and implemented on 30 June 2020. It provides that the investigation and prosecution of corruption cases should be conducted by the Public Prosecution Office for Organised Crime and Corruption, including those involving high level officials.

In January 2019, the new Law on Prevention of Corruption and Conflicts of Interest was adopted. The new law provides for stricter criteria for the selection of candidates for president and membership of the SCPC, with the aim of increasing transparency and impartiality. Under the new law, the SCPC's duties have been extended to include monitoring political campaign financing, overseeing and recording gifts received by public officials, and undertaking activities to strengthen personal and institutional integrity, including through education and raising awareness. This law also grants the SCPC direct access to information on the bank accounts of those holding public office and access to at least 64 databases of 17 different Government institutions. The new law prescribes a five-year national strategy for the prevention of corruption and conflicts of interest with an action plan to be adopted by the SCPC. The new law includes provisions prohibiting public officials from establishing a business relationship with a legal entity that is owned (fully or partially) or founded by the public official or a member of the official's family. The approved measures to be taken if a conflict of interest is found include mandatory misdemeanour sanctions, disciplinary procedures and dismissal (for non-elected officials) and a public warning and misdemeanour sanctions for elected officials. Pursuant to article 66 of this law, any legal acts that result from corruption or conflicts of interest, or are adopted in circumstances where there was corruption or a conflict of interest, are null and void.

In January 2020, the SCPC revised the National Programme 2016-2019 ("**National Programme**") and replaced it with the adoption of the National Strategy for Prevention of Corruption and Conflict of Interest 2020-2024 (the "**NSPCCI**") in January 2020. The main vision and mission of the NSPCCI is to reduce levels of corruption and increase public trust in the ability and capacity of public authorities. The NSPCCI sets out 12 main objectives. These include increasing political accountability, strengthening supervisory and control mechanisms and strengthening capacity for and resilience against corruption in the judiciary and law enforcement agencies. The NSPCCI was prepared based on corruption risk assessments conducted by the SCPC and broad consultative process involving public institutions and civil society organisations, in accordance with the provisions of the new Law on Prevention of Corruption and Conflicts of Interest. Specific measures and activities for the implementation of the NSPCCI are envisioned under a five-year action plan. The NSPCCI has been submitted for adoption to the Assembly in December 2020.

The Law on Protection of Whistle-blowers was adopted in November 2015. This law regulates the rights of and protections for whistle-blowers, as well as the actions and responsibilities of the institutions or legal entities related to protected reports and provision of protection to whistle-blowers. In March 2016, by-laws were adopted regarding protection of internal reporting in public sector institutions and the adoption of protected internal reporting of legal entities in the private sector.

The Law on Protection of Whistle-blowers and the associated by-laws entered into force on 18 March 2016. Amendments to the law were adopted on 20 February 2018. The amendments were prepared in accordance with international best practices and with the recommendations of the Venice Commission, as well as the expertise of the Council of Europe during working group meetings between representatives of the Venice Commission and various public officials, members of civil society, and topical experts. In October 2020, misdemeanour provisions of this law were adopted to align with the provisions of the new Law on Misdemeanours.

In addition, to support the implementation of this law, a public awareness strategy was developed to encourage a 'whistleblowing culture' to fight organised crime and corruption. In March 2019, the SCPC prepared a strategy for the promotion of the protection system for whistle-blowers in Republic. This strategy provides for a public awareness campaign to promote the positive aspects of protected reporting and the important role of whistle-blowers, a training plan and best practices, systems and procedures for protected reporting.

The second compliance report for Macedonia adopted by Council of Europe's Group of States against Corruption's ("**GRECO**") on 22 June 2018 assessed the measures undertaken by the Government in implementing the recommendations issued in the fourth round report covering "Corruption prevention in respect of member of parliament, judges and prosecutors ". The compliance report found that Macedonia had satisfactorily implemented six of the 19 recommendations in the fourth round report. The six implemented recommendations include providing written clarification concerning the notions of "family member" and of "movable property of greater value" that will be made available in the context of asset declarations, increasing the financial and personnel resources of the SCPC in the areas of conflicts of interest, lobbying and asset declarations and demonstrating a more balanced and proactive approach in these areas by the State Commission. Of the remaining recommendations, eight have been partially implemented and five have not yet been implemented. The eight partially implemented measures include the provision of appropriate legal, institutional and operational measures to ensure a more in-depth scrutiny of statements of interest and asset declarations submitted by members of parliament, judges and prosecutors, in particular by streamlining the verification process under the SCPC. New laws, codes of conduct and related guidelines have been adopted or proposed with a view to implementing the recommendations of GRECO, including the amendments to the Law on the Judicial Council (December 2017 and May 2018); the amendments to the Law on Courts (May 2018); the Code of ethical behaviour of the members of Parliament (June 2018); the new Law on Prevention of Corruption and Conflict of Interest (January 2019); the new Law on Public Prosecution (February 2020), and a new Law on Lobbying (proposed in September 2019). Additionally, trainings on ethics were held for judges, organised by the Academy for Judges and Prosecutors, in October 2019. The Government is currently undertaking activities to address GRECO recommendations from the fifth evaluation. The deadline for implementation of the GRECO recommendations was 30 September 2020.

The 2020 interim compliance report adopted by GRECO at the 85th GRECO Plenary Meeting assessed the measures undertaken by the Government in implementing the recommendations issued in the fifth round report. The compliance report found that North Macedonia's current level of compliance with the recommendations in the fifth round report is no longer "globally unsatisfactory". GRECO further concluded that North Macedonia has satisfactorily implemented nine of the 19 recommendations in the fifth round evaluation report. Of the remaining recommendations, eight have been partly implemented and two have not been implemented. In addition, GRECO has asked the authorities of North Macedonia to provide a new report on the implementation of the remaining recommendations by 30 September 2021.

Over the past years, North Macedonia has implemented a series of criminal procedure reforms, aiming both to increase efficiency and to strengthen the Government's capacity to fight organised crime and corruption. For example, the Instrument for Pre-Accession Assistance (the "**IPA**") 2009 project entitled "*Support in the*

Implementation of the Reform of the Criminal Justice System" ran from 2012 to 2014 and was intended to strengthen the capabilities of public prosecutors, the judicial police and other parties with an active role in the criminal proceedings for implementing criminal procedure legislation. The IPA 2010 project entitled "*Support to Prevention and Fight Against Corruption*", which was completed in October 2016, enhanced the implementation of the national anti-corruption legal framework, strengthened national mechanisms for the prevention of corruption and promoted cooperation between the SCPC, the judiciary, law enforcement agencies and other relevant institutions in the prevention, detection, prosecution and sanctioning of criminal acts of corruption. As part of these efforts to improve the anti-corruption framework, a number of IT solutions for record keeping and secure software development were developed (including a register of elected and appointed officials and an IT system for collecting and processing corruption prevention and repression statistics). In 2020, for example, activities for the assessment of compliance of the national whistle-blower protection legal framework with the EU directive on the protection of persons reporting breaches of European Union law were implemented under the EU and Council of Europe Horizontal Facility for the Western Balkans and Turkey - Project against Economic Crime. Training activities under this project have been postponed due to COVID-19 pandemic and are planned to be implemented in the course of 2021.

In March 2019, the Memorandum for Inter-Institutional Cooperation against Corruption and Money Laundering was signed amongst relevant institutions, including the Ministry of Justice, Ministry of the Interior, Ministry of Information, Society and Administration, the Statue Audit Office and the Financial Police, among others. The aim of this memorandum is to enable institutions to use the system to collect and process statistical data in the prevention of corruption and money laundering, thereby strengthening cooperation amongst the relevant institutions.

In support of these measures, the budget of the SCPC has was increased by approximately 47.9% in 2015 as compared to 2014, before stabilising in 2016 and 2017, including an increase of approximately 1.8% in 2016 (compared to 2015) and a decrease of approximately 5.3% (compared to 2016) to reach MKD 31.8 million and MKD 30.1 million, in 2016 and 2017, respectively. The SCPC Budget for 2018 decreased by 10% to MKD 27.1 million due to the suspension of its operations caused by the resignation of five SCPC members. New members were appointed in 2019 and the budget was increased by 31.3% to MKD 35.6 million. The SCPC budget for 2020 has increased significantly by 55.1% to MKD 55.2 million compared to the budget allocated in 2019. MKD 60.9 million has been allocated towards the SCPC budget for 2021. The SCPC expects to continue growing and hiring additional personnel in the anti-corruption department. 23 out of 51 positions envisaged in the systematisation act of the SCPC Secretariat are currently filled.

Local Government

North Macedonia is divided into 80 municipalities (*opstini*) and the City of Skopje municipality. Each municipality is autonomous, manages local affairs democratically, establishes its own budget and sets the rates of certain limited local taxes. The Constitution of North Macedonia grants all municipalities the same fundamental rights.

In accordance with the Law on Local Self-Government, enacted in 2002, all municipalities have equal authority and responsibilities. Municipalities can make decisions within their competences and laws. Municipalities are governed by representative bodies, whose members are elected for four-year terms. Decisions of municipalities may only be overruled if they conflict with the Constitution or national legislation. The most recent municipal elections were held in October 2017.

Historically, political parties of North Macedonia were ethnically based. However, the results of the municipal elections held in October 2017 indicate that parties such as the SDSM, the DUI and the Alliance for Albanians are working together in support of the new Government, which has contributed to increased domestic stability.

Subsequent to the October 2017 local elections, the SDSM controls 56 out of 80 municipalities and the City of Skopje compared to four following the 2013 local elections. The VMRO, which held 55 municipalities and the City of Skopje following the 2013 local elections, lost 50 municipalities and the City of Skopje in the 2017 elections. The Alliance for Albanians, which did not hold any municipalities following the 2013 elections, elected three mayors in 2017.

Overview of the Current Political Situation

Presidential Elections

Mr. Stevo Pendarovski was elected on 6 May 2019 with 51.7% of the vote. Mr. Pendarovski was a proposed presidential candidate of the SDSM-DUI coalition.

Assembly Elections 2020

On 20 October 2019, Prime Minister Zoran Zaev called for a snap election following the decision by EU leaders to postpone the commencement of EU membership talks with North Macedonia. The elections had originally been scheduled for 12 April 2020 but have been delayed due to the outbreak of the COVID-19 pandemic. Mr. Zaev resigned from his post in January 2020. An interim government was approved and appointed by the Assembly in January and led by former interior minister Oliver Spasovski until the scheduled parliamentary elections on 15 July 2020.

The July 2020 Assembly elections were the tenth Assembly elections in North Macedonia and the voting participation rate was 52%. Six political parties or political coalitions won seats in these elections: the SDSM, the VMRO-DPMNE, the DUI, the Alliance of Albanians, the Left (Levica) and the DPA. The majority of votes were won by the SDSM led coalition, “We can”. The “We can” coalition include over 20 parties including the BESA movement, the New Social Democratic Party (NSDP), Liberal Democratic Party (LDP) and other smaller parties representing ethnic groups. Between SDSM, DUI and DPA, the coalition won 62 out of 120 MP seats, which was sufficient for a ruling majority. Mr. Zoran Zaev continued as Prime Minister in his second term.

The following table sets out the share of the vote won in the July 2020 election and the number of Assembly seats awarded to each party:

Party	Seats awarded	Share of the vote
		(%)
Coalition “We Can” (SDSM, Besa, and other parties)	46	35.89
VMRO-DPMNE Coalition “Renewal”	44	34.57
DUI	15	11.48
The Left	2	4.10
Coalition Alliance of Albanians and Alternative	12	8.95
DPA	1	1.53
Other[1]	0	3.48
Total	120[2]	100.0

Notes:

(1) “Other” represents all parties that did not receive a sufficient share of the vote to be awarded a seat in the Assembly.

(2) No candidates surpassed the required threshold to win the 3 seats reserved for citizens of North Macedonia abroad.

Source: The Assembly of the Republic of North Macedonia.

Assembly Elections 2016

The elections in 2016 followed a three-year period of political turmoil in the Republic. In the April 2014 elections, Gjorge Ivanov was re-elected as President of the Republic with a plurality of votes. The SDSM, the main opposition party, subsequently refused to enter the Assembly and on 28 May 2014, the SDSM announced the resignation of 31 of its 34 Assembly seats in protest of what the party perceived to be unfair political interference during the administration of the April 2014 elections. The country was thereafter faced with a deep political crisis, which affected, among other things, the implementation of EU-related reforms. The EU offered to mediate between the parties in an effort to re-stabilise the country and help maintain its course towards EU membership. This offer was accepted by the main political parties. On 2 June 2015, facilitated by the EU, four parties (VMRO-DPMNE, SDSM, DUI and DPA) reached an agreement for early re-elections to be held on 24 April 2016, resulting in renewed political dialogue between the main political parties (the "**Przhino Agreement**"). The Przhino Agreement also established a list of reform activities concerning the rule of law, public administration, freedom of expression, media, electoral reform, inter-ethnic relations, fundamental rights and economic governance. Each of the four main political parties agreed on these measures, the responsible parties for each and the deadlines within which targets should be achieved. In September 2015, in accordance with the Przhino Agreement, the political parties of North Macedonia agreed on the appointment of a new special prosecutor to lead the investigation of claims of illegal surveillance activity in the Government.

On 10 November 2015, the Assembly approved legislation on the appointment of interim additional deputy ministers in advance of the April 2016 elections (which were later postponed to December 2016). Representatives of the SDSM joined the Ministry of the Interior and the Ministry of Labour and Social Policy, and the approved legislation established the roles and jurisdiction of the appointed additional deputy ministers at the Ministry of the Interior, the Ministry of Labour and Social Policy, the Ministry of Finance, the Ministry of Agriculture and the Ministry of Information Society and Administration. Any individual appointed as an additional deputy minister is required to be from the opposite party to that of the minister to whom such individual will serve as additional deputy, and such additional deputy minister is granted specific approval powers with respect to actions related to personnel, legal and financial matters in connection with the April 2016 elections. Any disputes relating to the scope of authority of such additional deputy minister are to be referred to the electoral commission.

In early January 2016, as a consequence of the June 2015 agreement, Nikola Gruevski resigned in favour of an interim prime minister 100 days in advance of the elections that were scheduled for April 2016. The elections were later postponed to June 2016 after the EU and the United States stated that satisfactory conditions for credible elections had not been met. The Assembly was dissolved in April 2016 ahead of the planned June elections. In response, the SDSM and other opposition parties announced that they would boycott the elections, stating that conditions for free and fair elections had not been met. In late May 2016, the Constitutional Court ruled that the dissolution of the Assembly was unconstitutional, and the Assembly was reconvened and voted to postpone the election date. The election was eventually held on 11 December 2016, with the VMRO-DPMNE winning 51 out of 120 seats in Parliament. On 27 April 2017, approximately 200 nationalists stormed the Parliament in Skopje, physically attacking Assembly members from the SDSM, DUI and the Alliance for Albanians and leaving more than 100 people were injured. These protests were the result of criminal allegations against the VMRO leader at the time, Nikola Gruevski, and other VMRO officials. On 31 May 2017, six months after the election, the Parliament voted in a new coalition government led by the SDSM and two ethnic Albanian junior coalition partners: the DUI and DR-DPA (itself a coalition of smaller parties, led by the mayor of Struga).

A new government, led by Prime Minister Zoran Zaev, was appointed in North Macedonia on 31 May 2017 and came into power on 1 June 2017.

International Relations

General

The Republic of North Macedonia is a sovereign state at the crossroads of Central and Southeast Europe. The Republic of North Macedonia declared its independence from the Socialistic Federal Republic of Yugoslavia on 8 September 1991. The main foreign policy objectives of North Macedonia in the early 1990s were to gain international recognition and to join the United Nations. Since then, the national foreign policy priorities have been NATO and EU accession and strengthening multilateral, regional and bilateral cooperation.

The Republic North Macedonia has established diplomatic relations with 170 countries. The Republic North Macedonia became a member of the United Nations in April 1993, the Organisation for Security and Cooperation in Europe in 1995, the Council of Europe in 1995 (including the Council of Europe Development Bank (the "**CEB**") in December 1997), the World Trade Organisation ("**WTO**") in April 2003 and NATO in March 2020. The Republic North Macedonia is currently a member of all major international organisations, multilateral and regional organisations and institutions, including the IMF, the World Bank Group, the International Bank for Reconstruction and Development (the "**IBRD**"), the International Development Agency (the "**IDA**"), the International Finance Cooperation (in each case, since February 1993), the Multilateral Investment Guarantee Agency (March 1993), the International Centre for Settlement of Investment Disputes (October 1998); the European Bank for Reconstruction and Development (the "**EBRD**") and the International Organisation of La Francophone (2006).

North Macedonia actively participates in all major regional cooperation organisations and initiatives in Southeast Europe, including the Southeast Europe Cooperation Process (the "**SEECP**"), the Regional Cooperation Council (the "**RCC**") and the Central European Initiative (the "**CEI**"). North Macedonia also joined the Strategy for the Adriatic and Ionian Region ("**EUSAIR**") and the Organisation of the Black Sea Economic Cooperation ("**BSEC**"). In addition, it is a party to several regional agreements such as the Central European Free Trade Agreement ("**CEFTA 2006**"), the Energy Community Treaty and the European Common Aviation Area Agreement. The offices of several regional initiatives are located in North Macedonia, including the Migration, Asylum and Refugee Return Initiative (the "**MARRI**"), the SEE Health Network, the National Associations of Local Authorities in Southeast Europe and the Network and the Regional Rural Development Standing Working Group of the SEE. North Macedonia was the initiator and one of the founders of both the Charter of Partnership between North Macedonia, Albania, Croatia and the United States (the "**US-Adriatic Charter**") and was also among the founding NATO partners active in the South East Europe Security Cooperation Steering Group, holding the Chairmanships of both organisations in 2017. See "— *International Relations— Regional Relations*".

In recent years, North Macedonia has experienced large inflows of migrants and refugees travelling to the European Union through Southeast Europe and applying for asylum in European Union countries. North Macedonia is part of the "Balkans Route", a route for many migrants from Asia and the African continent, although the majority were only transiting through North Macedonia and left the country after a few days. Since March 2016, the Western Balkans Route has been closed for legal transit of migrants and North Macedonia continues to implement measures in line with the European Council decisions on the closure of the Balkans Route. Between 1 January 2018 and 1 January 2020, 41,496 illegal border crossings through North Macedonia have been prevented. In August 2015, the Government officially declared a state of crisis at the southern and northern borders, which was extended to 30 June 2020. The state of crisis on the southern and northern borders was later extended until 5 September 2020 and again from 15 September 2021 until 31 March 2021. The decision to allow entry and/or transit only to migrants in need of international protection originating from the countries of armed conflict (i.e., Syria, Iraq and Afghanistan) led to a decrease in total inflow of migrants, but also prompted an increase in the number of illegal attempts to cross the border between Greece and North Macedonia. In April 2018, North Macedonia adopted a new Law on International and Temporary Protection and a New Law on Foreigners to further align the legislative framework of North Macedonia with respect to migrant and refugee issues with that of the EU. Law enforcement authorities continue to manage the refugee crisis in accordance with all European and international standards. To assist in securing the borders of North Macedonia, several countries (including Hungary, Croatia, Serbia, Slovenia, the Czech Republic, Slovakia, Austria and Poland) have seconded police officers and provided border surveillance equipment and financial assistance the southern border of North Macedonia since December 2015. Following the EU-Turkey Summit held in March 2016, the flow of migrants through the Balkans Route has significantly declined. North Macedonia cooperates effectively with neighbouring countries and EU Member States, including with guest border officers from the EU Member States on the ground.

EU Accession

EU accession has been and remains a strategic priority of the Government of the Republic of North Macedonia. The country established diplomatic relations with the EU in late 1995. Additionally, it signed a cooperation agreement with the EU in 1995 and became a beneficiary of the Poland and Hungary Assistance for the Restructuring of the Economy (the "**PHARE Programme**") in 1996. At the time, the PHARE Programme was the primary financial instrument of the pre-accession strategy for Central and Eastern European EU candidate countries.

In April 2001, North Macedonia signed SAA with the EU, becoming the first country in the region to do so, thereby taking an important step towards EU membership. The Interim Agreement on Trade and Trade-Related Matters, a section of the SAA that entered into force in June 2001, allows for preferential access of Macedonian products to the EU common market. The SAA entered into force on 1 April 2004. Since then, the Republic has focused on the implementation of the legal, administrative, institutional, and economic reforms required under the SAA. North Macedonia formally submitted its application for EU membership on 22 March 2004 and, on 17 December 2005 it was granted candidate country status by the European Council.

In October 2009, based on the country's progress in implementing the SAA guidelines, as well as its general political and economic reformation, the EC recommended that the European Council open accession negotiations with North Macedonia and move to the second stage of the SAA (pursuant to Article 5 therein). These recommendations were subsequently reiterated by the Commission each year (from 2009 to 2020).

In recognition of the significant progress made in the areas of justice, freedom and security and the benchmarks reached by North Macedonia, the EC proposed that the visa obligation for citizens of the Republic be lifted. As a result, and based on a decision by the European Council on 19 December 2009, citizens of North Macedonia may freely travel to and within the EU.

The Republic of North Macedonia has continued to make progress towards full compliance with the SAA. April 2021 will mark the 20th anniversary of the entry of North Macedonia into the SAA, the implementation of which has helped North Macedonia to achieve an advanced level of harmonisation with the regulations of the EU and to impose European standards in the areas envisaged in the SAA. All SAA-based institutional structures in North Macedonia are fully functional, ensuring daily, unimpeded communications and cooperation with EU institutions at all levels. In July 2018, following Greece's notification that it no longer had any reservations regarding the Republic's entry to the EU (as agreed upon in the Prespa Agreement), the Stabilisation and Association Council, the joint EU-North Macedonia political body that monitors and maintains the implementation of the SAA, adopted the decision for North Macedonia to move to Stage II of the SAA.

On 3 December 2020, following the United Kingdom's exit from the EU, North Macedonia signed the Partnership Agreement with the United Kingdom, which mirrors the trade conditions North Macedonia had with the UK prior to Brexit and aims to preserve the links between the parties established by the association created in Article 1 of SAA. The Partnership Agreement entered into force in December 2020 and is effective as of 1 January 2021. The preferential terms secured by the Partnership Agreement enable British and North

Macedonian businesses to continue to trade as they did before Brexit. The Partnership Agreement also sets out the UK's and North Macedonia's ambitions for their future relationship including the strengthening of political, economic, security and cultural ties as well as future cooperation in tackling climate change, improving education and the protection of human rights. North Macedonia is the UK's largest trading partner in the Western Balkans and the UK is North Macedonia's second largest import market. With the entry in to force of the Partnership Agreement, the businesses and consumers of both countries will continue to benefit from existing trading terms, including the tariff-free trade of industrial products.

During the last two decades, the Republic has undertaken significant reforms to align itself with the EU. As a result, several hundred new legal acts were introduced, transposing approximately 31% of the EU Acquis into the legal system. Several dozen new institutions were established and are fully functional. Examples of these are the Commission for Protection of Competition, the Energy and Water Services Regulatory Commission, the Agency for Food Quality Protection and various quality assurance entities for standardisation, measurement, accreditation and market surveillance, among others. Trade practices, the economy, FDI, education system and general movement of people of North Macedonia are substantially focused on and influenced by the EU.

On 17 June 2018, North Macedonia and Greece signed the Prespa Agreement, ending a long-standing dispute over the name of the Republic. See "—*Relations with Greece*". The Prespa Agreement entered into force on 12 February 2019. In August 2017, North Macedonia and Bulgaria also signed the Friendship Treaty, which took effect in both countries in January 2018, and introduced joint mechanisms to agree on a common reading of the history of both countries and to resolve other issues related to a difference of views on a shared history. Both North Macedonia and Bulgaria have exchanged action plans for the implementation of the Friendship Treaty. Bulgaria provided the latest action plan at the end of January 2021 which is currently being reviewed by the North Macedonian Ministry of Foreign Affairs. See "—*Relations with Bulgaria*". These agreements have resolved all open bilateral issues that had previously hindered the accession of North Macedonia to NATO and blocked the opening of accession negotiations with the EU. As a result, in March 2020, North Macedonia became the 30th NATO member state, and the European Council endorsed the decision to open accession negotiations, noting that North Macedonia has demonstrated its determination to advance the EU reform agenda and had delivered tangible and sustained results, fulfilling the conditions identified by the Council in June 2018.

The European Council in March 2020 endorsed the EC's Communication on "Enhancing the accession process – A credible EU perspective for the Western Balkans", published on 5 February 2020. This communication seeks to make the accession process more predictable and credible, more dynamic, and subject to stronger political steering, based on objective criteria and greater clarity on positive and negative conditionality as well as reversibility. The new negotiation methodology introduced six methodological groupings in which the existing 33 chapters are categorised, and also places focus on political and economic criteria and public administration reform. The EC presented the NC for North Macedonia on 3 June 2020, opening the process of consultations with member states, which remains ongoing. The NF received support from all other 26 member states, apart from Bulgaria, which vetoed the NF. Thus, the EC was not able to adopt the NF. Bulgaria lodged its veto due to alleged open issues between the two countries regarding historic and linguistic matters. Both North Macedonia and Bulgaria have exchanged action plans for the implementation of the Friendship Treaty. Bulgaria provided the latest action plan at the end of January 2021 which is currently being reviewed by the North Macedonian Ministry of Foreign Affairs. If a favourable outcome with Bulgaria is reached before June 2021, the Portuguese Presidency of the EU has expressed their intention to launch official accession negotiations with North Macedonia. On 21 December 2020, the Government launched a special plan, titled "Action 21-bringing European standards home", with aim to focus its energy on most important areas that can move the country's rule of law reforms and economy forward, without waiting for official opening of negotiations with the EU. See "—*Recent Developments – Action 21*".

In the first quarter of 2021, North Macedonia will renew and update its EU Reform Plan, aimed at streamlining the reform agenda in selected priority areas: electoral reform, the judiciary, prevention of corruption and organised crime, public administration, fundamental rights and media, economic governance, statistics, public procurement and environment, and its National Plan for the adoption of the EU Acquis to continue its efforts in aligning its reforms with EU standards in order to retain the high grades and EU acquis alignment record in the next EC annual report in 2021.

Instrument for Pre-Accession Assistance

In accordance with the EU financial framework for the period between 2014 and 2020, pre-accession assistance has been funded through the Instrument for Pre-Accession Assistance (the "**IPA**"). The second cycle of the IPA, IPA II, was introduced in 2014 and is expected to be fully implemented by 2027. The introduction of the third cycle of the IPA, IPA III, is expected between 2021 and 2022, however the full implementation date for IPA III is not expected until 2034. North Macedonia has received approximately €664.0 million in assistance for use in fulfilling its pre-accession commitments, including commitments in the following sectors: (i) democracy and good governance, (ii) rule of law and fundamental rights, (iii) competitiveness and innovation, (iv) transport, (v) environment and climate change, (vi) employment, education and social policy, (vii) agriculture and rural development and (viii) regional and territorial cooperation. North Macedonia also participates in a number of Union Programmes and Union Agencies, funded through the IPA, as well as in programmes geared towards cross-border cooperation with its neighbours, including, for example, the Balkan Mediterranean programme, a transnational cooperation programme spanning the period 2014-2020, which promotes cooperation in increasing territorial competitiveness and protecting the environment for the Balkan-Mediterranean countries. Union Programmes and Union Agencies are financial instruments structured to promote cooperation, primarily among EU Member States in fields related to different EU policies. Western Balkan countries have and will continue to gradually gain access to these Union Programmes and Union Agencies, and thus have the opportunity to become familiar with EU policies as well as with the system of values and mechanisms on which the EU is based.

In April 2020, North Macedonia became a full member of the EU Adriatic and Ionian Strategy, thus creating new avenues for cooperation at the regional and EU levels. In addition, North Macedonia is part of several multi-country and regional programmes, which address common priorities and needs of the countries in the Western Balkan region. These multi-country and regional programmes aim to enhance regional cooperation (particularly in the Western Balkans) and add value to the Country Action Programmes through horizontal support, regional structures and networks, regional investment support and territorial cooperation, including cross-border cooperation programmes, which represent the focus of assistance in the area of territorial cooperation between IPA II beneficiaries, as well as transnational cooperation programmes, such as the Adriatic-Ionian Regional Strategy.

IPA II (2014-2020) is results-oriented, allowing funding in sectors that meet the requirements of the sector approach, which targets reforms within pre-defined sectors covering areas linked to the EU enlargement strategy and also permitting direct and indirect management. The IPA II programmes are in the implementation phase, expected to be fully implemented by 2027.

The EC has prepared IPA III within the new Multi-Annual Financial Framework (2021-2027). This stage of the IPA will focus on determining whether projects contribute towards the goal of accession and whether the projects are sufficiently well planned to be funded, including leverage for International Financial Institutions ("**IFIs**"), through enhanced and more structured dialogue based on high level multilateral meetings and using existing coordination mechanisms. The Commission has sent the draft framework for IPA III to the relevant countries and North Macedonia has prepared and submitted its strategic response in October 2020, including its national priorities and alignment with the five IPA III programming rubrics: rule of law, good governance, a green agenda, competitiveness and territorial cooperation, as well as cross-cutting themes such as climate change, civil society, gender, a rights-based approach, and public administration reforms. North Macedonia intends to submit the final documents to the EC by the 15 March 2021 for the 2021 and 2022 programmes. Following this stage, specific strategic documents with allocations for the period 2021-2027 will be prepared. However, the full implementation date for IPA III is not expected until 2034.

The first Single Project Pipeline ("**SPP**") for funding projects under IPA II and the Western Balkans Investment Framework ("**WBIF**") was prepared in 2015. It includes funds allocated under the IPA programmes 2014-2020 together with funds provided by IFIs. The latest update of the SPP was in mid-December 2020 by the National Investment Committee and the revisions were endorsed by the Government on 5 January 2021. This updated version of the SPP will be relevant for IPA III, WBIF and the new Economic and Investment Plan for 2021-2027 (funded under IPA III Multicounty Programmes and IFIs).

NPAA

The vision and implementation of the accession agenda by the Government of North Macedonia is reflected in the National Programme for the Adoption of the EU Acquis (the "**NPAA**"). The NPAA is a key strategic document encompassing the priorities and dynamics of harmonisation of the national legislation with the EU legislation, as well as adjustments to national institutions towards EU administrative structures.

The NPAA methodology includes plans for harmonisation of the national legislation with EU legislation, the necessary dynamics of strengthening institutions for the implementation of legislation, the necessary resources for the adoption of the EU Acquis per the obligations of the Stabilisation and Association Agreement as well as the specific EU-driven peer review missions. The NPAA and the methodology are revised annually in line with the EC's Annual Report.

The NPAA is expected to be finalised and adopted by the Government in the second half of February 2021, following public consultations. The NPAA has been restructured to reflect the accession negotiation process and bilateral screening. North Macedonia has been implementing the SAA for over 15 years and, as a result, has achieved a significant level of alignment with the EU Acquis. The NPAA will ensure the continuity of the accession process and will maintain the capacity of the coordination structures necessary for bilateral screening.

NATO Accession

On 27 March 2020, the Republic of North Macedonia became the 30th member of NATO. The Government believes that accession to NATO has and will continue to promote domestic stability and contribute to further democratisation of Macedonian society. Since its independence in 1991, NATO membership has been a strategic priority for North Macedonia and, accordingly, the Republic has worked to strengthen its ties with NATO. In December 1993, the Assembly of North Macedonia voted in favour of the Republic becoming a NATO member. North Macedonia is an active participant in NATO's Partnership for Peace Programme and the Euro-Atlantic Partnership Council. Under the NATO Membership Action Plan (the "**NATO MAP**"), North Macedonia launched major political, democratic, economic, security and defence reform efforts. North Macedonia acts as a *de facto* NATO ally through its contribution of troops to NATO's operations. North Macedonia has expressed its commitment to increase its participation in the International Security Assistance Force ("**ISAF**") Mission and Mission "Resolute Support" in Afghanistan, in KFOR in Kosovo and to continue with its contribution to other UN and EU missions as well.

In 2003, North Macedonia, Albania and Croatia with support from the United States founded the US-Adriatic Charter, later joined by Bosnia and Herzegovina and Montenegro, with Serbia and Kosovo as observers. The US-Adriatic Charter is an initiative which promotes the regional stability and Euro-Atlantic integration of all countries in southeast Europe by bolstering political, defence and economic cooperation among the partners and between them and their neighbours.

As an active member in the Centre for Security Cooperation – Regional Arms Control Verification and Implementation Assistance Centre ("**RACVIAC**"), North Macedonia actively participates in various programmes, conferences, trainings and forums organised by RACVIAC on a regular basis, all of which contribute to regional stability and security.

In October 2020, at the 44th meeting of the Multinational Advisory Group ("**MAG**") the Republic of North Macedonia undertook a one year chairmanship with MAG for the first time since the establishment of RACVIAC. Since 2019, the Republic of North Macedonia has joined NATO's and the EU's efforts in improving awareness of and building resilience for defining and recognising hybrid national security threats. The Republic is implementing a national strategy to recognise and combat hybrid threats, including cyber defence. As part of its engagement with NATO, the Republic is scheduled to host NATO's annual Information and Communicators Conference. This was originally scheduled for September 2020 but has been rescheduled to September 2021.

Relations with the United States

The Republic and the United States have maintained positive bilateral relations since the independence of North Macedonia in 1991. The Republic was formally recognised by the United States on 8 February 1994 and the two countries established full diplomatic relations on 13 September 1995. In 2004, the United States recognised the Republic under its constitutional name at that time.

The partnership with the United States on both a bilateral and a multilateral level has best been demonstrated through the cooperation of the Republic's and the United States' military troops under the Iraq and Afghanistan missions aimed at achieving the common goals of promoting international security and countering terrorism. North Macedonia remains a stable strategic partner of the United States based on common commitments to security, freedom and democratic prosperity in the Balkan region.

In May 2008, North Macedonia and the United States signed a joint Declaration of Strategic Partnership and Cooperation. On the basis of this declaration, both governments sought to enhance their relations and broaden cooperation across a range of bilateral issues, including security, people-to-people ties and commerce. Under the new administration of President Biden, North Macedonia aims to intensify political dialogue and economic cooperation with the United States based on the Declaration of Strategic Partnership and Cooperation and common membership in the NATO Alliance.

The United States Agency for International Development ("**USAID**") has also provided support for the Republic's development. For example, USAID / Macedonia's Country Strategic Plan, which covered the period from 2011 to 2015, was aimed at supporting the rule of law and democratic reform, sound economic policy and regional stability. In 2018, the Development Objective Grant Agreement was signed with the objective of achieving increased private sector growth, enhanced participation by citizens and stronger social cohesion. The USAID / Macedonia's Country Strategic Plan for the period from 2020 to 2025 aims to achieve the following objectives: greater economic growth through improved competitiveness; increased youth engagement to lower unemployment and disenfranchisement and reduce corruption.

Relations with Germany

The Republic has maintained positive diplomatic and trade relations with Germany, reaching an unprecedented level in the last three years. The relationship between Germany and North Macedonia can be characterised by: (i) the recent cooperation and coordination between the two countries in response to the COVID-19 pandemic, (ii) Germany's active role in facilitating the opening of EU accession negotiations for North Macedonia and (iii) numerous diplomatic visits between the two countries. Germany is also one of the most important trading partners of North Macedonia, accounting for 25% of total trade exchanged in 2020.

Relations with the United Kingdom

The Republic has maintained positive diplomatic and trade relations with the United Kingdom, reflected by numerous high-level diplomatic visits in the last three years. In light of Brexit, North Macedonia has sought to strengthen bilateral ties with the UK and has signed a bilateral trade agreement with the UK in December 2020, which took effect as of 1 January 2021. The UK is one of the most important trading partners of North Macedonia, the total exchange of goods and services between North Macedonia and the United Kingdom in 2020 was US$1.52 billion. This was composed of US$162.44 million of goods and services exported from North Macedonia to the United Kingdom and US$1.36 billion of imports from the UK to North Macedonia. The UK is the second largest import market for North Macedonia.

North Macedonia has entered into the Partnership Agreement with the UK, which mirrors the trade conditions North Macedonia had with the UK prior to Brexit and aims to preserve the links between the parties established by the association created in Article 1 of SAA. The Partnership Agreement entered into force in December 2020 and is effective as of 1 January 2021. The preferential terms secured by the Partnership Agreement enable British and Macedonian businesses to continue to trade as they did before Brexit. With the entry in to force of the Partnership Agreement, the businesses and consumers of both countries will continue to benefit from existing trading terms, including the tariff-free trade of industrial products.

Regional Relations

North Macedonia seeks to further develop good relations with all of its neighbouring countries as well as to foster regional cooperation, through political, economic, trade and cross-border measures. North Macedonia has no open border issues with any of its neighbours and has achieved full border demarcation. North Macedonia actively encourages opening new border crossings with its neighbours to increase mutual cooperation and communication.

In addition, North Macedonia actively participates in regional initiatives aimed at improving cooperation, interconnectivity, stability and sustainable development of the region (including SEECP, RCC, CEI, Western Balkan 6, Western Balkan Funds, MARRI, Southeastern European Law Enforcement Centre, Southeastern Europe Health Network, Regional School of Public Administration and the RACVIAC. On 2 April 2020, the Republic of North Macedonia became the ninth member of the EU Strategy for the Adriatic and Ionian Region ("**EUSAIR**"), a macro-regional strategy adopted by the EC and endorsed by the European Council in 2014. EUSAIR builds on the Adriatic-Ionian Initiative, which concerns eight countries, aiming to create synergies and foster coordination among all territories in the Adriatic-Ionian Region. In 2020, North Macedonia became a member of the Organisation of the Black Sea Economic Cooperation.

In December 2006, North Macedonia, together with Albania, Bosnia and Herzegovina, Croatia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (on behalf of Kosovo in accordance with United Nations Security Council Resolution 1244) signed the CEFTA 2006, which came into force in November 2007. The main purpose of the CEFTA 2006 was to achieve significant trade liberalisation amongst its signatories. It provides for the creation of a single free trade zone and includes a single common approach towards the protection of intellectual property rights, investment policies, public procurement protection measures and other comprehensive measures.

In June 2000, North Macedonia concluded a trade agreement with the European Free Trade Association, which came into force in May 2002. This multilateral agreement provides for preferential customs duties on industrial and agricultural products for a transitional period until a free trade area has been established.

North Macedonia is party to a number of other agreements for trade and economic cooperation which are in conformity with the level of relations of these countries with the EU.

On 13 April 2020, the CEFTA parties launched green lanes to facilitate the cross-border transport of essential goods, such as food, livestock feed and crucial medical supplies, to mitigate the disruption of transport and trade of essential supplies caused by measures aimed at containing the COVID-19 pandemic.

In 2020, the Republic of North Macedonia and the Republic of Bulgaria began their co-chairmanship of the Berlin Process for the Western Balkans. The joint presidency will address various topics such as the importance of economic cohesion and connectivity with respect to transport, technology, digital integration and energy, the importance of social interconnectedness, the value of good diplomatic relations and the commonality of shared threats and challenges.

Following the Sofia Summit held on 10 November 2020, the leaders of the Western Balkans agreed on the Declaration on Common Regional Market which aims to achieve deeper regional economic integration and be a stepping stone towards an EU single market. The leaders of the Western Balkans also adopted an action plan for the period from 2021 to 2024 based on the EU four freedoms and the guidelines for the implementation of the Green Agenda for the Western Balkans.

Relations with Greece

On 17 June 2018, North Macedonia and the Hellenic Republic signed the 'Final Agreement for the settlement of the differences as described in the United Nations Security Council Resolutions 817 (1993) and 845 (1993), the termination of the Interim Accord of 1995, and the establishment of a Strategic Partnership between the Parties' (more commonly known as the "**Prespa Agreement**"), ending a long-standing dispute over the name of North Macedonia. The Prespa Agreement entered into force on 12 February 2019. As a result of the Prespa Agreement, several committees and councils have been formed to further strengthen ties between Greece and North Macedonia. These include a joint multidisciplinary committee on historical educational and archaeological issues, established in November 2018; the international group of experts on trademarks, industrial property and brands, established in June 2019; the Committee for Business Dialogue and the High Cooperation Council, formed in April 2019, which is focused on security cooperation, improvement of the road and railway infrastructure and acceleration of the EU accession process for North Macedonia. Greece is also one of the largest foreign investors in North Macedonia with investments in the banking, petrochemical and textile industries. The total exchange of goods and services between North Macedonia and Greece in 2020 was US$627.23 million. This was composed of US$175.52 million of goods and services exported from North Macedonia to Greece and US$451.71 million of imports from the Greece to North Macedonia.

Relations with Albania

Relations with Albania, founded on shared foreign policy goals of European and Euro-Atlantic integration and engagement in regional and multilateral cooperation, have been developing steadily. The two countries share a vision for a prosperous and interconnected region, integrated within the EU and NATO.

Considerable activity is under way within the context of cross-border cooperation to encourage economic, environmental and social development. Specifically, both countries are focused on promoting tourism, sustainable environmental practices, sustainable management of natural resources and ecosystems, as well as social cohesion and cultural exchange through people-to-people and cross-institution activities.

Additionally, both countries have been pursuing political and security cooperation within the US-Adriatic Charter and the SEDM process (southeast Europe ("**SEE**") defence ministers cooperation vehicle) with a view to contributing to regional cooperation and stability, as well as promoting neighbourly relations among all SEE countries. North Macedonia along with Greece, Albania, Bulgaria, Italy, Romania and Turkey established the SEE-SEEBRIG Multinational Peacekeeping Forces in 1999. In April 2020, the Ministries of Agriculture of Albania and North Macedonia announced that the two countries will sign an Agreement on the Recognition of Phytosanitary Certificates, as part of the "mini-Schengen" framework.

Relations with Bulgaria

Bilateral relations with Bulgaria have been progressing steadily, based on shared foreign policy objectives of EU and NATO integration of the region. There are over 50 bilateral cooperation agreements in place.

On 1 August 2017, Prime Minister Zaev and Bulgarian Prime Minister Borisov signed the Friendship Treaty which is a bilateral treaty of friendship, good neighbourly relations and cooperation, with both sides confirming their commitment to a spirit of cooperation and progress, which will directly contribute to the mutual development of relations among and stability of the countries and the region. The treaty entered into force on 14 February 2018. In accordance with the treaty, the Republic and Bulgaria established the Joint History Commission and the Joint Inter-Governmental Commission. In parallel with the signing of the treaty, two Memoranda of Cooperation for Energy and for Railway Connection were signed, aimed at intensifying cooperation in the areas of infrastructure and energy connectivity between the countries and the region as a whole. In addition, on 23 November 2017, North Macedonia and Bulgaria held the first joint government meeting in North Macedonia. The first session of the Joint Inter-Governmental Commission between the Republic of Bulgaria and the Republic of North Macedonia was held on 10 June 2019 in Sofia. The Joint History Commission has held 12 meetings in total, the most recent on 25 – 26 of February 2021. Beside the frequent meetings, in this relatively short period of time the Joint History Commission has made notable progress, harmonizing the textbook narratives for and agreeing on the joint celebration of five historical personalities from the medieval period.

The EC presented the NF for the accession of North Macedonia on 3 June 2020 which was vetoed by Bulgaria. Bulgaria lodged its veto due to alleged open issues between the two countries regarding historic and linguistic matters. Dialogue between both the Republic of Bulgaria and the Republic of North Macedonia on the implementation of the Friendship Treaty is on-going with the intention to come to a mutual understanding to implement the EU accession negotiations. In November 2020, North Macedonia sent a proposed action plan to the Government of Bulgaria with the intention to improve and deepen relations and cooperation, especially in the infrastructure sector, trade and economy, education, local government, defence and police cooperation. In January 2021, North Macedonia sent to Bulgaria the I8 Proposal - an initiative intended to accelerate the realization of the Pan-European Corridor 8 and to form a political platform for furthering the cooperation between the countries involved. Bulgaria provided the latest action plan at the end of January 2021 which is currently being reviewed by the North Macedonian Ministry of Foreign Affairs.

Relationship with International Organisations and Private Foreign Investors

North Macedonia depends on its relationship both with IFIs and with private foreign investors to finance major infrastructure, health, education and other social and economic projects that the Government deems critical to continued national development and EU Acquis harmonisation efforts. For further details relating to historic and planned expenditure associated with the organisations discussed below, see "*Indebtedness — External General Government Debt — International Financial Institutions" and "Macedonian Economy — Public Investments*".

International Monetary Fund

Since 1994, the Republic has received assistance from the IMF in the form of stand-by arrangements and other types of financing facilities, including the Systematic Transformation Facility, Enhanced Structural Adjustment Facility, Compensatory and Contingency Financing Facility, Poverty Reduction and Growth Facility, Extended Fund Facility and Precautionary Credit Line. The IMF has historically worked closely with the Republic to foster macroeconomic stability and encourage structural reform so as to increase the pace of economic growth. On 10 April 2020, the IMF approved and disbursed €176.5 million to the Republic of North Macedonia from the IMF's RFI in response to the outbreak of the COVID-19 pandemic. For further information, see "*Risk Factors—The Macedonian economy is vulnerable to external shocks and fluctuations in global and regional* *economic conditions, which could have an adverse effect on the economic growth of North Macedonia and its ability to service its public debt*" and see "*Indebtedness—External General Government Debt—Eurobond issuances and external loans*".

World Bank

The Republic joined the World Bank in 1993 and has received financing assistance targeted at specific projects and public sector, financial and infrastructural reforms. The World Bank has historically worked to maintain macroeconomic stability and develop a sound financial sector in North Macedonia. Committed loans, guarantees and grants from the World Bank to North Macedonia totalled approximately US$2.5 billion as at 28 January 2021. The World Bank has supported North Macedonia in its efforts to join the EU through: (i) fostering economic growth, job creation and improving living standards and (ii) improving the governance and transparency of public service delivery to support the market economy. The World Bank's strategic objective for North Macedonia is to support its ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life.

In the medium term, North Macedonia intends to continue its cooperation with the World Bank by focusing on the continued implementation of existing projects financed by the World Bank and implementing new projects with support from the World Bank, including:

- *Agriculture Modernization Project*. The objective of this project is to improve competitiveness in targeted agricultural sub-sectors and strengthen agricultural public sector readiness for EU accession,
- *Public Sector Energy Efficiency Project*. The objectives of this project are to reduce energy consumption in the public sector; and to support the development and implementation of a sustainable financing mechanism for energy efficiency in the public sector,
- *North Macedonia Digital Economy (NODE)*. The objective of this project is to improve access to online knowledge, services and the labour market with a focus on digital skills training for youth and women,
- *Primary Education Improvement Project (PEIP)*. The objective of this project is to improve conditions of childrens' learning in primary education,
- *Integrated Financial Management Information System (IFMIS) and the Integrated Tax IT System (ITIS)*. The IFMIS aims to allow the Government to modernise outdated systems and widen the scope of budget planning, execution, monitoring and fiscal reporting by covering all stages of the expenditure cycle in line with the new budget law.
- *High Speed Broadband project.* An agreement with the World Bank was reached in February 2021 to increase their funding of a project to enhance North Macedonia's broadband connectivity. The increased amount of funding is expected to be approximately €37 million. This is additional to the €70 million funding agreement which was reached previously in 2020, however some of this funding was partially redirected to combat the economic impact of COVID-19.

Furthermore, North Macedonia will also focus on the implementation of the new Country Partnership Framework ("**CPF**"), covering the period 2019-2023. The CPF aims to support the Government's programmes and medium-term strategy, which present a vision of accelerated economic growth with better employment opportunities, social cohesion and inclusion. The current portfolio includes the following on-going projects:

- *Skills Development and Innovation Support Project*. The goal of this project is to improve the quality of university and vocational education, and to provide public financial support for encouraging new innovations from local companies.

- *Municipal Service Improvement Project II*. This project is intended to improve the transparency, financial sustainability and delivery of targeted municipal services in participating municipalities by providing loans and grants for financing investments in revenue-generating public services and investment projects with cost-saving potential.

- *Social Services Improvement Project.* This project is aimed at creating a comprehensive system of social services, ensuring the systematic implementation of social reformed services through an extended network of providers, introducing an integrated information system for administering rights and services and technical assistance and training to support and strengthen the capacity of local governments.

- *Western Balkans Trade and Transport Facilitation Project*. The objective of this project is to provide deeper economic integration within the Western Balkan region, as well as to reduce the costs of trade and increase the efficiency of transport in the Republic.

- *Local Roads Connectivity Project*. This project aims to improve government capacity to manage local roads and improve access to markets and services. In response to the COVID-19 pandemic the Republic and the World Bank activated €37 million from the Contingency Emergency Response Component of the Local Roads Connectivity Project to support local companies which have been severely impacted by the COVID-19 pandemic. All of the €37 million has been disbursed.

- *North Macedonia Emergency COVID-19 Response Project*. On 30 April 2020, in response to the COVID-19 pandemic, the World Bank approved an emergency loan of €90 million to North Macedonia. The loan agreement was signed on 19 October 2020. As of 26 February 2021, €31.75 million had been disbursed. This project aims to prevent, detect, and respond to the threat posed by COVID-19 and strengthen public healthy national systems. This project includes (i) providing immediate support to disease surveillance systems and public health laboratories, including the procurement of diagnostic kits, PPE and training on relevant protocols; (ii) providing support for limited renovations to create additional intensive care unit beds, medical waste management and disposal systems and for financing salaries of frontline health workers; and (iii) financing temporary income support for vulnerable households under quarantine and temporary unemployment insurance for those who have lost their jobs due to the outbreak of the COVID-19 pandemic. See "*Indebtedness—International Financial Institutions*".

- *Social Insurance Administration Project.* The objective of this project is to improve the quality of services in administering social insurance and to strengthen regulatory protections for citizens with disabilities and hazardous occupations.

- *Road Upgrading and Development Project*. The purpose of this project is to improve transportation connectivity for road users along Corridor VIII.

European Investment Bank

Since 1998, the European Investment Bank ("**EIB**") has contributed to the realisation of the Government's priorities for investment in road infrastructure, energy, small- and medium-sized enterprise development, water supply and other public works. From 1998 to 28 January 2021, the total value of all finance contracts signed with EIB is approximately €913 million (including concluded loans and guarantees issued by the Government).

The EIB supplied funding to build a motorway section situated on Corridor X, which was selected for development by successive Pan-European Transport Ministers Conferences. The development of this motorway network is intended to facilitate international traffic and foster exports. See "*Macedonian Economy—Public Investments*". The EIB also supports a Water Supply and Wastewater Collection Project, which includes investments in rehabilitating, upgrading and constructing new water infrastructure, water supply systems, drinking water treatment facilities, wastewater drainage systems, faecal sewage systems and wastewater treatment stations in the municipalities in North Macedonia. This project is expected to be completed in December 2021.

In addition, the Government and EIB are in the process of negotiating a sixth credit line in the amount of €100 million that will provide support for small to medium sized enterprises ("**SMEs**"). This is in addition to the fifth credit line which was signed in 2018. The €100 million available under the fifth credit line was disbursed during 2019 and 2020. The sixth credit line will increase employment, provide greater liquidity in the Macedonian economy and increase exports. The project "Utilisation of the Water from the HS Zletovica" was scheduled to be implemented in three phases. Following completion of the first phase, financed by a loan from the Japan International Cooperation Agency, the Government expects that its cooperation with the EIB will be focused on the implementation of the remaining second and third phases of this project. Phase 2 includes irrigation of 4,500 hectares in the region of municipalities Probistip and Kratovo, with the aim of promoting stable economic development for citizens in this region as well as quality food production. Phase 3 includes the construction of hydropower plants along the river Zletovica in order to increase access to electricity in North Macedonia, thereby creating opportunities for new employment in the region. All necessary documentation for the commencement of Phases 2 and 3 has been completed and was financed by a grant of €1.0 million from the Western Balkans Investment Framework ("**WBIF**"). The project is still awaiting approval from the EIB.

The EIB has also been selected to finance a gas interconnection pipeline between North Macedonia and Greece. This pipeline is currently in the contractual negotiation stage and construction is anticipated to start in 2022

European Bank for Reconstruction and Development

The EBRD has been active in the Republic since 1993; its latest Strategy 2019-2024 for North Macedonia was adopted by the Board of Directors on 22 May 2019, with initiatives aimed to enhance the competitiveness of, and facilitating private investment in, the corporate and municipal sectors, as well as promoting energy efficiency and sustainable energy and advancing regional integration.

On 17 November 2020, North Macedonia and the EBRD signed the memorandum of understanding. This memorandum provides a framework for cooperation between the Government and the EBRD, recognising the country's process of accession to the European Union through a combination of investments and technical assistance. The areas of focus pursuant to the memorandum are: (i) strengthening of the private sector's competitiveness and growth; (ii) sustainable infrastructure and green economy transition, including regional connectivity priorities; and (iii) strengthening the investment climate and governance.

The EBRD works closely with the Government and other key partners such as the EIB and the EU in connection with the financing of road and other transportation projects. Key projects that have been implemented with EBRD support include:

- *Project for Construction and Installation of Electronic Toll Collection System along Corridor X.* This project envisages reconstruction, extension, and modernisation of the existing toll stations along Corridor X; the relocation and modernisation of, and increase in, the number of toll collection lanes at the Petrovec, Sopot and Otovica toll stations; and the construction of two new toll stations in Demir Kapija and Gevgelija. All seven toll stations were completed in 2020.
- *Highway Tolling Project.* This project envisages the upgrade and modernisation of existing toll stations, the construction of three new toll stations, the design and construction of an additional lane for the Miladinovci toll station on Corridor VIII, the installation of photo voltaic solar panels on fifteen toll stations, maintenance and mandatory spare parts for the existing toll stations on Corridor VIII and the construction of three toll stations on new highway sections.
- *The Rehabilitation and Construction of the Eastern Part of the Railway Corridor VIII.* This project aims to further develop the rail transportation system, which is expected to increase trade and

interconnectivity amongst neighbouring countries, in an effort to increase competitiveness, promote economic development and improve communication with other European countries. The rehabilitation of the first and second sections of the railway is being financed through loans granted by the EBRD in 2012 and 2014. In addition, in 2018, a WBIF investment grant was secured in the amount of €68.6 million, which will help finance the rehabilitation of the second section of the railway and which will reduce the total EBRD loan amount accordingly.

- *National Roads Programme*. The purpose of this project is to assist in the construction of two new national road sections, as well as the rehabilitation of 26 national roads. The project is expected to be completed during the course of 2021.
- *Construction of Shtip – Radovish Road Section.* This project aims to improve the quality of road infrastructure in North Macedonia. It is expected that the completion of this project will facilitate the transportation of people, goods and services in the south-eastern part of North Macedonia.
- *Construction of Kriva Palanka – Bulgarian Border Road Section.* This project aims to rehabilitate and widen a single-lane carriageway, with a total length of 13 kilometres between Kriva Palanka and Deve Bair near the Bulgarian border, which is part of the eastern section of Pan-European Road Corridor VIII.
- *Skopje Bus Project.* This project aims to modernise Skopje's bus fleet by replacing the current fleet with more efficient and environmentally friendly buses. It will improve the quality of, and access to, public transport, reduce fuel and maintenance costs and further improve Macedonian environmental protection practices.
- *Project for 400 kV long-distance power line interconnection between TC Bitola 2 (Republic of North Macedonia) and TC Elbasan (Republic of Albania)*. This project envisages construction of a new 400/110 kV long-distance power line in Ohrid, of approximately 90 kilometres in length. It is the first project aiming to connect electricity systems between the Republic of North Macedonia and Republic of Albania. It is expected that, once this project is completed, it will also allow North Macedonia to become a more important energy crossroad in the Balkan area.
- *MEPSO rehabilitation and control project.* The aim of this project is to increase the quality of electricity supply, reduce the operating and maintenance costs of substations and to maximise the utilisation of the transmission network in order to improve the stability and reliability of the power system, ultimately thereby improving the services that the transmission network provides to customers.
- *Macedonian Air Traffic Service Enterprise Upgrading Project.* The aim of this project is to improve the performance of the entire air traffic control system.

The EBRD has also provided financing for the renewal of several rail sections of Corridor X, with the aim of reducing future maintenance costs and ensuring safer and more efficient travel along these sections. The EBRD has also supported a programme to renew the rolling stock of Macedonian Railways, in connection with which 150 wagons, two new electric passenger units, four new diesel passenger units and four electric locomotives have been purchased and put into operation. In addition, North Macedonia will receive a loan from EBRD for the new Skopje bus transit project.

In addition to the activities for the implementation of on-going projects, continued cooperation with the EBRD is expected to focus on preparation of the following projects: (i) Skopje – Blace Highway Section Project, which includes the construction of a new section from Skopje to Blace, the border crossing point with Kosovo, (ii) Gostivar – Kicevo Motorway Project, which is located in western North Macedonia and will form part of the Trans-European Corridor VIII motorway, (iii) the construction of a joint border crossing station at Tabanovce on Railway Corridor X, connecting the Republic of North Macedonia with Serbia and (iv) Photovoltaic Power Plant Oslomej.

The EBRD has also been selected to finance the National Gas Pipelines Project, including the construction of a 34-kilometre long gas pipeline on the Gostivar – Kichevo Section and construction of a 28-kilometre long gas pipeline on the Sveti Nikole - Veles Section. This project builds on the main gas pipeline transmission system throughout North Macedonia, and is intended to make natural gas available throughout North Macedonia.

Council of Europe Development Bank

The Council of Europe Development Bank (the "**CEB**") has supported the realisation of numerous social investment projects in North Macedonia, including in the fields of education, social housing, and rehabilitation. Key projects financed by the CEB include:

- *The Physical Education Facilities Project and Physical Education Facilities and Rehabilitation of Primary and Secondary Schools Project.* These projects are part of a broader effort by the Government to improve the educational system in the country, with particular emphasis on enhancing the performance of students, improving their long term health, and stimulating social interaction among students with different backgrounds, capabilities, and aptitudes.
- *Project for Construction of Low-Income Rental Housing in the Republic of North Macedonia.* This project is aimed at strengthening the development of the Government's social policy through the fight against poverty and social exclusion of low-income persons and vulnerable groups, by providing them with adequate housing.
- *Prison Reconstruction Project.* This project includes construction, reconstruction, refurbishment and expansion of prisons and correctional facilities in North Macedonia in line with international standards, including the European Prison Rules, and is intended to strengthen the protection of the inmates' dignity, improve their living conditions and provide better working conditions for the employees in the above-mentioned institutions.
- *Project for Construction of the Regional Clinical Hospital in Shtip.* This project aims to consolidate and modernise the Regional Clinical Hospital in Shtip by reconstructing and upgrading the facilities. Projects jointly financed by international institutions.

Projects jointly financed by International Financial Institutions

Jointly financed projects are typically regionally significant, complex projects with considerable capital requirements that may exceed levels that an individual institution would be willing to bear, and which are therefore financed by multiple international financial institutions, typically major transportation and energy sector infrastructure projects marked as the highest priorities of the Government because of their importance for country development, and sustainable and equally distributed economic growth.

Jointly financed initiatives include:

- *Construction of the third section of Rail Corridor VIII, section Kriva Palanka-Deve Bair border with Bulgaria.* The Government intends to use grant funds from IPA II, while the remaining amount will be provided by a loan from the EBRD and EIB.
- *Waste Water Treatment Plant (WWTP) Skopje.* This project intends to improve the quality of wastewater treatment services in Skopje and bring these in line with European standards through the construction of a Central WWTP, with capacity to meet the needs of approximately 500,000 inhabitants (or 650,000 population equivalent). The construction of the WWTP is expected to begin in May 2022. This project will be financed by loans from the EIB and EBRD, as well as a grant from the EIB.

- *Project for construction of a university clinical centre on a greenfield location in Skopje*. The planned loan of €500 million from the CEB and EIB will provide high quality health services for the population of North Macedonia. The terms of this loan have not yet been negotiated.

Bilateral Initiatives

In addition to support from IFIs, the Government relies on financing from private third parties in order to pursue its domestic growth strategy and implement related initiatives. *See "Macedonian Economy—Public Investments*". Key partners and projects are discussed below.

Kreditanstalt für Wiederaufbau.

Cooperation with the Kreditanstalt für Wiederaufbau (the "**KfW**") is focused on projects related to water supply, irrigation, energy and renewable energy. Recent projects include initiatives to provide affordable and sustainable drinking water supplies, construction of irrigation systems, energy efficiency measures and electricity production. In cooperation with KfW, North Macedonia is implementing the following projects:

- *Water and Sewerage Programme North Macedonia - Phase I and Phase II*. The primary objective of this project is ensuring a sustainable water supply to the population in the selected municipalities at socially acceptable costs. The more urgent operations in the water supply systems have been successfully completed, and are intended to ensure a sustainable supply of drinking water for the population of the eight municipalities included in the project (Bitola, Gevgelija, Gostivar, Kavadarci, Kocani, Negotino, Radovis and Tetovo). Operations in the water supply systems in four municipalities (Radovis, Gevgelija, Kavadarci and Gostivar) are in the phase of implementation as part of the second stage of Phase I. Phase II of this project includes water supply measures and activities in Gevgelija and Kavadarci financed with funds provided by KfW.

- *Irrigation Programme Southern Vardar Valley*. This project involves the sustainable development of agricultural production through construction of irrigation systems in southeast North Macedonia. Within the first phase of this project, irrigation systems were built, covering approximately 2,500 hectares of arable land. The second phase of this project includes rehabilitation and modernisation of the irrigation systems in the municipality of Valandovo.

- *Project for District Heating of Bitola*. This project aims to replace the use of electricity, oil and wood for heating, instead using heat waste from a power plant, thereby reducing greenhouse gas emissions and improving the reliability of the distribution network. Connections may also be provided to future distribution networks Novaci, Mogila and Logovardi, depending on interest.

- *Wind Park Bogdanci Project*. The second phase of the project aims at expanding the existing wind farm in Bogdanci by adding six more turbines, which will increase total capacity by 13.8 megawatts ("**MW**").

- *Energy efficient rehabilitation of student dormitories in North Macedonia.* The project aims to increase the energy efficiency of and modernise selected state-owned student dormitories in North Macedonia. These measures include increasing of energy efficiency, improving structural integrity and improving basic comfort.

- *Irrigation Programme North Macedonia.* This project aims to rehabilitate and extend up to four irrigation schemes in the Vardar River Basin. The overall goal is the sustainable increase of the agricultural output in selected irrigation schemes by improved availability and efficient use of water resources.

Deutsche Bank and Erste Group Bank AG - Project for Building a Gas Pipeline System in Republic of North Macedonia

This project aims to build a gas transportation pipeline and a thermoelectric plant to increase efficiency in transporting gas to facilities expecting to have high demand. The construction of the section from Klecovce to Valve Station 5, totalling 61 kilometres in length, is in progress and is being financed with budget funds and funds from the debt obligations of the former USSR to the Republic of North Macedonia (an agreement was finalised in June 2010 between the Republic of North Macedonia and the Government of the Russian Federation regarding outstanding trade obligations between the Former USSR and the Former Yugoslavia). With a loan from Deutsche Bank AG and Erste Group Bank AG, the Republic of North Macedonia is financing the construction of the following sections: (i) Section from Negotino to Bitola, totalling 92 kilometres in length and (ii) Section from Skopje via Tetovo to Gostivar, totalling 76 kilometres in length. These sections are expected to be completed during 2021.

Export-Import Bank of China

The construction of the highway section Kicevo – Ohrid, with a total length of 57 kilometres (US$684.7 million), which is financed by loans from the Export-Import Bank of China, is expected to be finished in the first half of 2021. By developing road infrastructure in this part of North Macedonia, the Government hopes to ensure more efficient, secure, and safe road traffic. The construction of the highway section Miladinovci – Shtip was completed in 2019.

Legal Proceedings

Except as described below, the Republic is not and has not been involved in any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on the Republic's financial position.

There are three active arbitration procedures:

- The ad hoc arbitration case was initiated by Blazo Tasev against the Republic of Macedonia on 7 December 2017 and is proceeding in accordance with UNCITRAL arbitration rules. The value of this arbitration case is $426 million. The claim is based on the Bilateral Agreement between the Republic of Macedonia and the Republic of Slovenia for mutual protection and promotion of investments. The case is in its initial stages and is considered low risk. An arbitral award is expected by the end of 2021.
- The claimants are several Ukrainian investors in a precious metals concession in North Macedonia. The claimants filed a lawsuit with the International Centre for Investment Disputes in Washington, DC on 4 April 2019. The claim arises out of the Government's termination of the claimants' concession in March 2018. The deadline for the claimants to submit their brief was 20 March 2020, while the Republic had until 7 August 2020 to respond. A final hearing was planned for July 2021. However, due to the COVID-19 pandemic, the final hearing has been postponed to during the course of 2021 to 2022.
- An arbitration case against the Republic of North Macedonia was initiated by EL.PET. BALKANIS, SOCIETE ANONYME PETROLEUM, as the claimant, on 26 December 2018. The case has been brought before the International Arbitration Court at the International Chamber of Commerce in Paris. The claimant is seeking damages in the amount of $31.6 million, with a 5% interest rate calculated from 22 December 2015 and reimbursement of legal fees. A verdict was expected in the second half of 2020, however this has been delayed due to the COVID-19 pandemic

- An ad hoc arbitration case initiated by Mr. Gokul das Binani and Mrs. Madhu Binani against the Republic of North Macedonia on 3 November 2020 and is proceeding in accordance with UNCITRAL arbitration rules. The claimants are seeking damages in the amount of $224 million. The claim is based on under the Agreement between the Government of the Republic of India and the Government of the Republic of Macedonia for the promotion and reciprocal protection of investments of 1996. The case is in its initial stages and is considered low risk. The same claimants started an arbitration proceeding on the same legal bases for the same issue back in December 2017. However, that case was dropped by the Arbitration Tribunal due to the claimants' inactivity, and North Macedonia is expecting payment in its favour in amounts of €653,089.31 and $132,502.67 as well as additional CHF 10,000.00 to cover costs borne by the Republic in connection with the 2017 arbitration.

At the date of this Offering Circular, there are seven cases against the Government pending before the European Court of Human Rights ("**ECHR**"), with potential damages (on a per case basis) ranging from €180,000 to €510,000. In five of these cases, the applicants have presented their claims, but these are still pending before the ECHR therefore no outcome can be foreseen at the present time.

Some of these cases are in a preliminary phase of proceedings; therefore no outcome can be foreseen at the present time. However, in one case (21 applications joined by the ECHR submitted by 63 applicants), the Government has accepted the terms of the settlement proposed by the ECHR and is obliged to pay the applicants a total amount of €198,700. The proposed settlements have been accepted by 20 out of 21 of the applicants and their cases are now settled. However, one applicant with a claim of €2,000 has rejected the settlement and this case is on-going.

In an additional case, the applicants have asserted damages of approximately €38 million, which claim is supported by an expert report. The applicants have presented their claims, but the proceedings are still pending before the ECHR. In another case, which is in a preliminary phase of proceedings before the ECHR, the applicant has asserted damages of approximately €3.5 million. These two cases are the only cases that are outside the €180,000 to €510,000 range.

According to the report of the State Attorney of North Macedonia, during 2020 and 2021 there are 26 active cases which are pending before National Courts that are against the Republic. The majority of the cases are still in the preliminary phase and claims against the Republic are for non-material damages. If all of the 26 cases were judged in favour of the applicants, the total potential amount of damages would be approximately €11.5 million.

MACEDONIAN ECONOMY

Recent Developments

Actions taken in response to the COVID-19 pandemic

On 17 March 2020, the Government declared a state of emergency, which was extended several times until 22 June 2020 empowering it to implement extraordinary, but necessary, social measures to slow the spread of the COVID-19 pandemic and to support the capacity and resilience of the healthcare system. These measures included moving schools and educational facilities to virtual learning; closing public recreational facilities such as restaurants, cinemas and fitness centres; recommending that citizens work from home where possible; prohibiting movement of citizens at certain times of day; instituting a curfew and requiring all citizens to wear protective face-masks when they leave their homes. Additionally, the Ministry of Health and the HIF have reallocated funds where possible to enable rapid and unhindered access to and procurement of medical equipment and materials, including personal protective equipment, and have proposed legislative amendments, which have been approved by the Assembly, to provide health services to all citizens regardless of their status under the HIF. The Ministry of Health has expanded overall hospital bed capacity by 122 beds through the creation of two mobile hospitals (with the logistical support of the Ministry of Defence and the financial support of the Government of Switzerland); dedicated several hospitals across the country to the identification and treatment of COVID-19 patients and has expanded testing capacity through the laboratories of the Institute for Public Health, the Macedonian Academy for Art and Science, the Veterinary University and various private accredited laboratories. The Government has increased the capacity for intensive care units in hospitals and a separate section in each hospital was established for COVID-19 patients.

In the second half of November 2020, a state of crisis was declared in the Republic of North Macedonia and a new measure was adopted where all available resources could be used to respond to the COVID-19 pandemic, including the resources of private hospitals could be used by the Government if necessary. However, in the months that followed, the capacity in public hospitals was enough to cater to the needs of COVID-19 patients and therefore the resources of private hospitals were not used. The state of crisis lasted 30 days and was not extended any further.

North Macedonia's vaccination process started on 17 February 2021 in the modular hospital at the University Clinic for Infectious Diseases and Febrile conditions. The first batch of vaccines was used for the health workers across North Macedonia who are directly working with COVID-19 patients. After health workers, the next priority group will be people over the age of 70 with a high risk of disease and complications. The Republic applied for approximately 833,000 doses of COVID-19 vaccines through COVAX, led by the Coalition for Epidemic Preparedness Innovations and the WHO. The Republic has procured an additional 800,000 doses of vaccines through a direct contract with Pfizer and another 200,000 doses through a direct contract for the Sinopharm vaccine for a population of approximately 400,000 citizens. The Republic of Serbia made an initial donation to North Macedonia on 14 February 2021 of 4,680 doses of the Pfizer vaccine and a further 3,320 doses were donated by Serbia on 24 February 2021. Furthermore, 25,000 doses through COVAX are expected to arrive in March 2021.

While the economic effects of the COVID-19 pandemic continue to evolve as of the date of this Offering Circular, the main impact to date has been on economic sectors that have been closed down due to the Government's measures, such as the tourism and services sectors. According to IMF projections, the Macedonian economy is expected to decline by approximately 5.4% in 2020, and is expected to grow by up to 4.5% in 2022 as the economy recovers. According to the IMF, relative to regional peers, the GDP contraction of North Macedonia in 2020 is expected to be at the lower end of the range, while its growth in 2021 and 2022 is expected to place it towards the upper end of the range, as set out in the table below.

	For the year ended 31 December		
	2020	2021	2022
		(%)	
North Macedonia	(5.4)	5.5	4.5
Albania	(7.5)	6.1	5.8
Bosnia and Herzegovina	(6.5)	5.0	4.0
Bulgaria	(4.0)	4.1	3.7
Croatia	(9.0)	6.0	4.4
Greece	(9.5)	4.1	5.6
Serbia	(2.5)	5.5	6.0
Montenegro	(12.0)	5.5	4.2

Source: IMF.

To date, the Government has adopted five packages of measures to support the economy through the crisis caused by the COVID-19 pandemic, with an estimated cost of approximately €1.2 billion.

The first package of measures adopted on 18 March 2020, with a total value of €36 million, included:

- The provision of direct financial support to micro-, small- and medium-sized companies through the Development Bank of the Republic of North Macedonia. A total of €5.7 million has been earmarked for interest-free loans to those micro-, small- and medium-sized companies affected by the COVID-19 pandemic, with a grace period of six months and a repayment period of up to two years.
- Financial support in the form of social contribution subsidies valued at up to 50% of the monthly average salary, per employee, for affected companies for the months of April, May and June 2020. This support measure stipulates that benefitting companies must (i) retain the same number of employees recorded in February 2020 until July, except in certain cases (including retirement and leave), (ii) not pay dividends between 6 April 2020 and the day of submission of the company's financial statements for 2020 and (iii) not pay bonuses to employees after these measures come into effect.
- The reduction of the base interest rate of the National Bank to 1.75%, in order to further reduce the cost of financing.
- The regulations governing domestic banks' credit assessments for new borrowers were relaxed to encourage lending.
- An exemption from advance payments of corporate income taxes for companies in industries affected by COVID-19 for the months of April, May and June 2020.

The second package of measures adopted on 31 March 2020, with a total value of €160 million, included:

- The provision of financial support for employers who experienced a decline of at least a 30% in revenues in April 2020, in the amount of MKD 14,500 per month per employee for April and May, with the proviso that these companies must retain the same number of employees until July except in certain cases (including retirement and leave). This financial support can be converted into a grant if the company reinvests the funds into improving the company's productivity and competitiveness. Companies that realise a profit as a result of business operations in 2020 will be required to partially or fully repay the grant amount over the course of 2021. More than 21,000 companies have applied for this financial support and as at 20 May 2020, over 18,500 such applications had been approved, covering 120,000 employees. Approximately MKD 5 billion has been allocated for this measure, half of which is being financed through the €50 million Contingency Emergency Response Component of the recently approved Local Roads Connectivity Project, in connection with the World Bank.

- The provision of financial support for athletes and artists in the amount of MKD 14,500 for the months of April and May.
- The provision of financial assistance and an energy allowance for households and social protection beneficiaries who were part of the informal economy and were left without an income due to the crisis.
- The provision of more favourable conditions on loans by individual banks, such as extension of repayment dates, providing moratoriums, suspending payments of principle on loans, providing grace periods and providing more favourable interest rates. The NBRNM estimated that 50-55% of household debt and 30% of corporate credit was restructured in reliance of these measures during this period. These measures applied up to 30 September 2020.
- A postponement of rent payments for citizens in social housing.
- The provision of interest-free loans by the Development Bank of North Macedonia to companies from a fund of €8 million.
- Freezing, prolonging or restructuring loans to financial companies and leasing companies.
- suspension of advanced payments of corporate income tax and personal income tax for the months of March, April and May 2020 for sole proprietors in heavily affected sectors (tourism, transport, catering) and other companies that were required to close their businesses due to the Government's restrictive measures.

On 17 May 2020, the Government adopted a third set of measures aimed at economic recovery and boosting domestic consumption. These measures were targeted at those citizens and sectors that were most impacted by the COVID-19 pandemic, in particular the services, hospitality, agriculture and tourism sectors. The amount allocated for this third package of measures has a total value of €355 million. These measures included:

- The development of a domestic payment card which will allow recipients to purchase goods and services from heavily affected sectors, with a focus on domestic products and services, such as tourism. The funds provided will be required to be spent within a 30 day period and will not be available for ATM withdrawal. Alongside this measure, a programme to install point-of-sale terminals at merchants will also be implemented. This measure is intended to increase cashless payments.
- The provision of a domestic payment card with MKD 9,000 for vulnerable families and low income or unemployed citizens with a monthly income equal to or less than MKD 15,000. A total of 309,337 citizens have used a domestic payment card, with €26.5 million worth of transactions made using these domestic payment cards as of 15 August 2020.
- The provision of tourism vouchers worth MKD 6,000 and a domestic payment card in the amount of MKD 3,000 to employed citizens with a net salary up to MKD 15,000. This measure is aimed at supporting the tourism and catering sector by boosting confidence and consumption.
- The provision of IT and digital skills vouchers worth up to MKD 30,000 each and a domestic payment card in the amount of MKD 3,000 for students and young people up to 29 years of age to increase their competitiveness in the labour market and in an increasingly digital economy.

- The provision of a domestic payment card for doctors and medical staff working on the frontline of the COVID-19 pandemic, in the amount of 20% of net salary for two months.
- The provision of financial support for up to two months to citizens who lost their jobs between 11 March and 30 April, but who do not otherwise qualify for assistance (such as those who left their jobs with a settlement or who were dismissed), in the amount of 50% of net salary for up to two months.
- The introduction of a "Macedonian Shopping Weekend" during September, whereby all or part of the value added tax ("**VAT**") will be returned for certain sectors via the mobile app 'MyVAT', which currently has over 275,000 users.
- National co-financing for a donation from the EU for the Development Bank of North Macedonia which will finance the provision of interest-free loans combined with a 30% grant for micro and small companies which are led by women, which employ young people, which are export-oriented or which will implement new processes, digitalise or introduce e-commerce. The Development Bank of North Macedonia has (i) received €30 million from an EU performance award grant and will on-lend these proceeds interest-free and (ii) provided an additional €5 million of loans to the agricultural sector.
- The introduction of a partial credit guarantee scheme with 50% coverage and initial capital of approximately €10 million funded through the Development Bank of North Macedonia. This will become available by the end of 2020 as a post-crisis recovery measure to provide access to capital and funds for investment.
- The provision of financial support for investments, under the Law for Financial Support of Investments, with a focus on companies which need to increase competitiveness and productivity.
- The provision of business development services for co-financing of projects of SMEs which will introduce new products, processes or innovation.
- The introduction of a marketplace platform for the textile industry to add value and B2C e-commerce sales to foreign markets.

A fourth package of measures was announced on 27 September 2020, with a total value of €470 million. These measures included:

- Extending the financial support offered in the second package of measures to employers on 31 March 2020 through to the final quarter of 2020 and the amount offered to companies will vary between MKD 14,500 and MKD 21,776, per employee.
- Extending the interest-free grace period applicable to certain loans made after 31 March 2020 from the Development Bank of the Republic of North Macedonia by another three months. The cost of borrowing for the private sector decreased, as shown in the decline of the Denar lending interest rates applied to households and enterprises, from 6.6% and 4.3% in December 2019 to 6.2% and 3.8% in December 2020, respectively.
- The provisions of new low-interest loans offered by the Development Bank of the Republic of North Macedonia were introduced. Approximately €100 million will be made available from January 2021 to domestic companies at low-interest rates. These loans are financed by the EIB.
- Further support to the tourism sector, including wage support of MKD 21,776 for tour guides, reimbursing tourism taxes paid by operators in 2019, up to an amount of €2 million, and grants were ranging from €3,000 to €7,000 for all tour agencies depending on the number of employees.

- Changes to the VAT regime to increase domestic consumption. For example, VAT for services and products was reduced from 18% to 5% and VAT for hospitality services has been reduced. Public donations are now VAT exempt for another 12 months.
- The provision that companies whose income has declined by more than 40% as a result of COVID-19 are exempt from advance payments of corporate income tax until March 2021.
- Specialist targeted measures for the industries most impacted by the COVID-19 pandemic. For example, import duties on raw materials were reduced to support domestic manufacturing and processing industries; the Government purchased €6.7 million of surplus grapes from the 2020 wine harvest to support domestic wine producers and duties on gambling and entertainment were reduced.

In order to provide greater flexibility during the state of emergency, the Law on Budgets was amended to allow budget users to make reallocations in their budget of up to 70% of their budget to deal with the consequences of the COVID-19 pandemic. The Government has also implemented various measures to reduce government expenditures, including a reduction of less productive expenditures in the public sector, such as for representations, sponsorships, advertising; a public sector employment freeze (excluding the health sector and other essential sectors in dealing with the pandemic); and an instruction to minimize non-essential public expenses (including state-owned enterprises and municipal expenses) and reduce public expenditures by 15% in 2020.

As a result of the four packages of measures designed to mitigate the effect of COVID-19 on the Macedonian economy, gross investment in the third quarter of 2020 grew by 4.2%, in comparison to the second quarter of 2020 where it fell by over 30%. Investment in the construction sector, as well as in machinery and equipment used in this sector, drove this recovery. Public consumption also recovered and grew 13.5% in the third quarter of 2020.

The Government adopted a fifth package of measures on 17 February 2021, with a total value of €160 million. This set of anti-crisis measures was created in order to encourage positive business results, to support export activity, to support access to capital of companies, to encourage investment activities, to improve competitiveness, investment in human capital, digitalization and investments in innovation and to support revitalization and development. These measures, funded through budget reserves, include:

- Providing over 2,000 of the most severely impacted companies with wage support for employees.
- Financial support through 0% interest rate loans for the most affected sectors including, tourism, craftsmen, hospitality industry, transport and the event planning industry.
- Financial support for citizens by extending the exemptions for personal income tax advance payment until 30th June 2021.
- Targeted financial support towards broadcasters, craftsman, tobacco growers and viticulturists.
- Providing grants for international transport companies and grants for road transport passengers.
- Extension of the grace period for loans provided under the second package of measures and postponement of the enforcement of loans provided under the first package of measures.
- Waiving interest on individuals' debts owed to public institutions/enterprises and/or tax debts.
- Temporarily abolishing customs duties on 71 products and/or raw materials and abolishment or reduction of customs duties on 31 raw materials and/or meats.

- Extension of the time period for awarded concessions and postponing the payment of fees for license and permit for performing activities.
- Exemption from contractual obligations (paying penalties) for companies affected by the crisis.

Adoption of Supplementary Budgets

Realisation of the 2020 budget in the first quarter of 2020 was significantly influenced by the effects of the COVID-19 pandemic. Measures implemented by the Government of North Macedonia to prevent the spread of COVID-19 have imposed significant restrictions that have resulted in the reduction or complete cessation of certain types of economic activity, which in turn affected fiscal revenues and expenditures. In order to address the consequences of the pandemic, comprehensive measures were needed during this period, not only to protect employment, but also to protect the liquidity of the budget, service the highest priority obligations (such as health spending and support of employment), and minimize all less productive spending in the budget.

The sharp slowdown in economic activity stemming from the implementation of health measures (such as the closing of non-essential businesses), and the demand shocks resulting from the unpredictable development of the pandemic, required a downward adjustment of the revenue side of the 2020 budget adopted in December 2019 (the "**2020 Budget**"). At the same time, expenditures to meet the needs of the health sector, stimulate private consumption, and support the economy required an upward adjustment of the expenditures side of the 2020 Budget, which have been further increased by the Government's decision to invest in measures to improve the competitiveness and productivity of domestic companies by modernizing their equipment and processes.

The supplementary budget was adopted and approved on 15 May 2020 (the "**Supplementary Budget**"). The Supplementary Budget provides an 11.5% or MKD 25.5 billion reduction in revenue from MKD 222.3 billion in the 2020 Budget to MKD 196.8 billion. This revision is based on the realization of revenues between January and April 2020, amounting to 27.3% of the 2020 Budget, and expectations for revenues to the end of 2020. Total expenditures in the Supplementary Budget are expected to increase by 1.4% or MKD 3.3 billion to MKD 242.9 billion, compared to MKD 239.7 billion in the 2020 Budget.

On 5 October 2020, the Ministry of Finance made further revisions to the 2020 Budget and Supplementary Budget to account for the impact of the fourth package of measures announced on 27 September 2020 (the "**Second Supplementary Budget**"). The Second Supplementary Budget estimates the economic output in 2020 will decline by 4.4%. Expected revenue in the Second Supplementary Budget was MKD 196.4 billion which is marginally less than the expected revenue in the Supplementary Budget. However, Government expenditure is predicted at MKD 253 billion, an increase of 4.2% compared to the Supplementary Budget. This is a result of the fourth package of measures announced on 27 September 2020. Based on the budgeted revenues and expenditures in the Second Supplementary Budget, the budget deficit is expected to increase to MKD 56.6 billion, or 8.5% of GDP for 2020. A fifth package of measures was adopted by the Government on 17 February 2021.

Financing of the projected deficit, as well as debt repayments, will be provided from domestic and foreign borrowing. Foreign borrowing is intended to be incurred in the form of loans and credit lines for the financing of certain projects, the IMF's RFI in the amount of approximately €176.5 million and the first tranche of a loan from the EU for macro-financial support in the amount of €80 million, as well as the bond issuance contemplated pursuant to this offering circular. Domestic borrowing includes a short-term loan from domestic banks in the amount of MKD 8.2 billion (€132.9 million) and net borrowing from the domestic government securities market in amount of MKD 21.52 billion (€350 million).

Overview

Following its independence in 1991, North Macedonia faced significant economic challenges as it transitioned from a centrally planned economy to a market economy. In particular, the collapse of the former Yugoslavia and the subsequent closing of its markets in the early 1990s, the unallocated external debt of the former Yugoslavia that was assumed by North Macedonia and the deficit of funds in the health and social sectors all contributed to macroeconomic instability in North Macedonia. This instability manifested through a sharp contraction of GDP in North Macedonia as well as high unemployment and hyper-inflation. The economy was also adversely impacted by the trade embargo imposed by Greece from February 1994 through October 1995, the war in Bosnia, international sanctions imposed on Serbia (largest trading partner of North Macedonia at the time) and the crisis in Kosovo. By 1998, the situation had stabilised and annual real GDP growth rate of North Macedonia from 1998 through 2019 was 3.0 p.p. per annum, reflecting progress on economic reform, free trade and regional cooperation.

In 1992, the Government began introducing broad reforms to the economic system, including liberalisation of markets, privatisation of ownership and restructuring of industries and companies. A series of changes to fundamental aspects of the economy were introduced in the mid-1990s, including the introduction of the Denar in 1992 and initiatives to reduce previously high levels of inflation, combined with an intensification of the privatisation process. More significant reforms were introduced after 2000, including the introduction of VAT to the tax regime in April 2000 and the adoption of the law on foreign exchange operations in 2001 allowing free flow of capital. Fiscal decentralisation started in 2004, facilitating greater autonomy for the municipalities in the country.

North Macedonia developed its trade relationship with the EU through free trade agreements for textiles and transportation towards the end of the twentieth century, culminating in the signing of the SAA in April 2001. Macedonia joined the WTO in April 2003, and has since entered into numerous bilateral and multilateral trade agreements. As a result, trade plays an important role in the economy of North Macedonia.

Privatisation in North Macedonia started in 1989 and continued until the closing of the privatisation agency in 2005, during which time approximately 1,750 enterprises were privatised. As a result of this process, the Macedonian economy is primarily based on private ownership, with the market economy functioning on principles of free interaction between supply and demand. See "—*Privatisation*".

EU accession remains a key strategic priority for North Macedonia. In recognition of the progress that North Macedonia had made in meeting the Copenhagen criteria, the EC granted North Macedonia official EU membership candidate status in 2005, and formally agreed to open accession negotiations with North Macedonia in March 2020. See "*Overview of the Republic of North Macedonia—International Relations— EU Accession*".

North Macedonia participates in European Semester Light, an approach introduced by the EU in 2014 to support economic policies and strengthen economic governance through the preparation of an Economic Reform Programme ("**ERP**"). The process includes pre-accession harmonization of economic policies with the EU and preparation of an annual ERP that contains macroeconomic and fiscal policies and indicators, as well as structural reforms and measures to improve the country's competitiveness and reduce unemployment. According to the Council of the EU, North Macedonia made relatively good progress in implementing the structural reform measures in its ERP 2019-2021, with an average score of 3.1 out of 5. According to the Council of the EU, 11% of measures were at the stage where implementation is being prepared, initial steps had been taken in 28% of measures, implementation is still ongoing with some initial results having been achieved for 28% of measures, 22% of measures are in the advanced stage of implementation, and 11% of measures have been fully implemented. The ERP 2020-2022 was adopted by the Government on 28 January 2020 and officially submitted to the European Union on 3 February 2020.

The ERP 2020-2022 targets three key challenges through a number of measures and structural reforms: (i) youth unemployment, (ii) integration of domestic companies into global value chains and (iii) formalisation of the economy. Some of the measures under the ERP 2020-2022 include improving the business environment through digitisation of government services; providing better trade and transportation services; aligning the energy sector with EU green growth strategies and providing support to companies for research and innovation. The policy guidance of the ERP 2020-2022 includes:

- stabilising the debt ratio by moving towards a balanced primary budget while implementing the budgeted capital expenditure;
- adhering to agreed consolidation measures, particularly the new pensions indexation formula;
- implementing legal and organisational measures to improve revenue collection;
- increasing the transparency of public finances by including public enterprises in the general government fiscal reporting framework (where this has been mandated by international statistical standards);
- adopting the new organic budget law including fiscal rules and arrangements for an independent fiscal council;
- operationalising the denarisation and NPL resolution strategies, which have already been adopted;
- closely monitoring the emergence of potential financial stability risks related to the consumer loan segment and deploying appropriate micro and macro-prudential policy tools as needed;
- seeking legal clarification on the National Bank's mandate to set macro-prudential policy;
- implementing and applying transparent and consistent procedures for business inspections;
- creating a register of para-fiscal charges at the central and local level;
- reducing the time and costs of commercial disputes by strengthening the institutional capacity of civil courts;
- ensure the implementation of the Action Plan for Formalization of the Informal Economy (2018–2020) in accordance with its timeline;
- implementing the Youth Guarantee across North Macedonia by ensuring that the Employment Agency is well-staffed;
- strengthening governance in the education sector by improving infrastructure, curricula and qualifications of teachers; and
- adopting and implementing the new social protection legislation for improving the impact of social transfers on poverty reduction

The ERP 2021-2023 was published in January 2021 and focused on post-COVID-19 recovery and building up economic resilience through aligning EU's green, digital and just transition strategies. The ERP 2021-2023 focuses on a number of measures and structural reforms (i) the new "Organic Budget Law", which is currently under parliamentary review and which contains provisions for fiscal rules, the establishment of a fiscal council and medium term budget planning; (ii) a new strategy for reforms to the tax system and (iii) and activities to establish a special organizational unit in the Ministry of Finance in order to improve public investment management. Since achieving EU membership candidate status, the Republic has implemented an ambitious reform programme to stimulate economic growth and improve the living standards of its citizens through the development of the private sector, improvement of the investment climate and greater job creation. These reforms are intended to align the Government's policies with certain macroeconomic criteria required by the EU, as well as to ensure that the country's laws are in compliance with the EU framework. These reforms have focused on improving conditions for doing business in North Macedonia, mainly through reduced bureaucratic procedures and administrative burden on firms, as well as through substantial tax reform. Although unemployment levels remain high, North Macedonia has undertaken a number of projects and initiatives, in part aided by the World Bank, to reduce unemployment, particularly by finding solutions to youth unemployment.

Initiatives under the ERP 2021-2023 will focus on:

- increasing the competitiveness of the electricity market, promotion of renewable energy sources and improving energy efficiencies;
- improving irrigation systems, consolidation of agricultural land to promote efficiencies and improving the quality of roads on farms;
- streamlining the use of parafiscal charges and supporting SMEs in less-developed regions of North Macedonia;
- enhancing co-operation between academia and industry;
- facilitating international trade, particularly across the border with Serbia; and
- developing the qualification and examination systems in North Macedonia, particularly for those from deprived or vulnerable categories.

North Macedonia also designed economic policies to improve its international competitiveness by strengthening support of innovation and entrepreneurship. The Government has also encouraged capital investment in new industries by creating Technological Industrial Development Zones ("**TIDZs**") throughout the country for foreign and domestic investors, in accordance with the Law on Technological Industrial Development Zones. These TIDZs are compliant with EU competition regulations and are subject to the Law on Technological Industrial Development Zones. TIDZs were established with the intention of attracting foreign investors and were established in order to support the development of modern technologies. The TIDZs are free zones with respect to customs and tax laws, and provide fully developed infrastructure and connections to utilities. Currently, there are eight operational TIDZs in North Macedonia. There are 24 companies in the TIDZs that are operating actively or building operating capacity, out of a total of 33. See "*—Key components of the economy—Industry*".

In 2018, the Law on the Financial Support of Investments was adopted to stimulate economic growth and development in the Republic of North Macedonia through support of investments aimed at increasing the competitiveness of the economy and the level of employment. The following types of financial support are available for investments: (i) support for new employment; (ii) support for establishing and promoting cooperation with suppliers from the Republic of North Macedonia; (iii) support for establishing organisational forms for technological development and research; (iv) support for investment projects of significant economic interest; (v) support for capital investments and revenue growth; and (vi) support for purchasing assets of companies in distress.

Earlier in 2020, the Law on Strategic Investments was adopted to encourage strategic investments in the Republic of North Macedonia, increase economic growth, employment and the application of new technologies and innovations, increase the competitive economic opportunities of North Macedonia, increase exports, reduce the trade deficit and improve the wellbeing and living conditions of the citizens of the North Macedonia. This law defines 'strategic investment project' as a project that meets one or more abovementioned purposes and which realises an investment in the amount of: (i) at least €100 million in the territory of two or more municipalities, (ii) at least €50 million in the municipalities based in the city, the municipalities in the City of Skopje and the City of Skopje, and (iii) at least €30 million in rural municipalities.

Economic Policy

Government economic policy is focused on fulfilling the requirements for EU membership, accelerating economic growth, job creation and the development and improvement of the standard of living of its citizens. In pursuit of these objectives, the Government has instituted the following key initiatives:

- Increasing the competitiveness of Macedonian enterprises through structural reforms; increased investments in IT, technology and education; and strengthening the quality of the labour force;
- Attracting greater levels of foreign and domestic investment by simplifying and improving regulations, increasing the transparency and efficiency of Government institutions and operations, improving public infrastructure and creating easier access to financial resources; and
- Improving the quality of public institutions to better implement reforms, reducing the informal economy, providing greater protection for creditors, facilitating accelerated execution of financial obligations, decreasing public consumption and combating corruption.

Global comparison

North Macedonia has shown a sustained commitment to implementing reforms in order to improve international competitiveness and promote economic growth. As a result, the country has continuously ranked among the top reformers in facilitating business for several years according to the World Bank's *Doing Business* reports. In the most recent *Doing Business 2020 report*, North Macedonia was ranked 17th out of 190 countries, an improvement from its rank of 71st out of 181 countries in 2009. As such, North Macedonia ranked ahead of all countries in the region and 24 EU member states (all except Denmark, Sweden and Lithuania). Its ranking was also highest among upper middle income countries. In recent years, North Macedonia was among the 20 highest ranked countries in terms of the number of business regulation reforms implemented, with a total of 43 reforms having been executed since the report's initial publication in 2003. According to the *Doing Business 2020* report, North Macedonia ranks 12th in terms of protecting minority investors, primarily as a result of increased transparency in reporting of corporate transactions as well as an enhanced role of minority investors in corporate management. North Macedonia also ranks highly in terms of ease of dealing with construction permits, reducing the cost of the construction permit process and facilitating obtaining credit following regulatory changes in the definition of collateral and the introduction of a unified collateral registry. The table below shows the comparative ranking of North Macedonia against selected neighbouring countries in this report.

	North Macedonia	Montenegro	Croatia	Romania	Serbia	Bulgaria	Greece	Albania
				Ranking				
Ease of Doing Business	17	50	51	55	44	61	79	82
Starting a Business	78	101	114	91	73	113	11	53
Dealing with Construction Permits	15	40	150	147	9	43	86	166
Getting Electricity	68	134	37	157	94	151	40	107
Registering Property	48	83	38	46	58	66	156	98
Getting Credit	25	15	104	25	67	67	119	48
Protecting Minority Investors	12	61	37	61	37	25	37	111
Paying Taxes	37	75	49	32	85	97	72	123
Trading Across Borders	32	41	1	1	23	21	34	25
Enforcing Contracts	47	44	27	19	65	42	146	120
Resolving Insolvency	30	43	63	56	41	61	72	39

Source: Doing Business 2020, World Bank

Furthermore, the Republic's score on the OECD's FDI Regulatory Restrictiveness Index (the "**FDI Index**") in 2019 compares favourably to its peers. The FDI Index measures statutory restrictions on foreign direct investment across 22 economic sectors. It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: (i) foreign equity limitations; (ii) screening or approval mechanisms; (iii) restrictions on the employment of foreigners as key personnel and (iv) other operational restrictions, such as restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The overall restrictiveness index is the average of sectoral scores.

Country	**Score**
North Macedonia	0.026
Albania	0.057
Romania	0.008
Croatia	0.034
Greece	0.032
Serbia	0.050
Montenegro	0.024

Source: OECD.

Economic developments and trends

The table below sets out key indicators of the Macedonian economy for the years presented. Major trends behind these movements are outlined in the discussion that follows.

	Year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP growth (%)	3.9	2.8	1.1	2.9	3.2	(4.5)
Inflation (CPI)	(0.3)	(0.2)	1.4	1.5	0.8	1.2
Budget deficit (% of GDP)	3.5	2.7	2.7	1.8	2.0	8.1
Change in budget deficit (%)(1)	(12.2)	(17.4)	5.2	(31.5)	17.8	295.4
Central Bank bills interest rate (%)(2)	3.3	3.7	3.3	2.9	2.3	1.6
Unemployment (%)(3)	26.1	23.7	22.4	20.7	17.3	16.5(5)
Change in the number of unemployed persons (%)(4)	(7.4)	(9.6)	(5.1)	(7.0)	(16.2)	(6.4)(5)

Notes:

(1) Calculated as the percentage change in the budget deficit as compared to the previous year.

(2) Calculated as the average interest rate over the respective period.

(3) Calculated as the average unemployment rate over the period.

(4) Calculated as the percentage change in the number of unemployed persons for the period as compared to the previous year.

(5) Data as of 30 September 2020.

Source: State Statistical Office, Ministry of Finance and National Bank of the Republic of North Macedonia

2015

Real GDP growth in 2015 amounted to 3.9%. Output growth was primarily driven by gross investment, which increased by 8.3% largely due to the increase in gross fixed capital formation.

Consumption increased by 4.3%, reflecting increases in both private and public consumption. Private consumption increased by 4.4%, mostly as a result of growth in household disposable income and an increase in household credit. Public consumption growth amounted to 3.9%, reflecting an increase in budget expenditure for goods and services. Strong export growth continued in 2015, amounting to 8.5%. Net exports, however, contributed negatively to GDP growth, while imports grew by 9.9%.

Construction activity increased by 8.0% in 2015, partly as a result of the fiscal stimulus resulting from budget expenditures on infrastructure projects. The services sector increased by 4.9%, primarily as a result of increased activity in the information and communication sectors and financial and insurance services. Industrial production in 2015 increased by 4.9%, primarily as a result of increased production in manufacturing and various governmental measures undertaken to improve the business climate. Agricultural output increased by 1.9%.

Inflation in 2015 was negative 0.3%, largely as a result of a 16.5% decline in fuel prices, reflecting the decrease in crude oil prices on the world markets. Food prices, which comprise the largest share in the consumption basket, increased by 0.1%.

As a result of negative inflation and favourable developments in the external sector, the NBRNM maintained the interest rate of CB bills at 3.25%. Bank support to the private sector remained solid and total credits increased at a 9.6% annual growth rate through December 2015 as a result of increased credits to households and enterprises. Total banking deposits increased at an annual rate of 6.5%, due to both local and foreign currency deposit growth, and represented 92% of the broad money ("**M4**") monetary aggregate.

The unemployment rate continued to decrease in 2015, reaching 24.6% in the fourth quarter, which was 3.0% less than in the same quarter in 2014. The number of workers increased by 2.3% on average in 2015, with most of the new jobs created in the manufacturing and trade sectors. Levels of employment also increased in the construction sector, as well as in other service activities, such as accommodation and food service activities and financial and insurance activities. The overall growth in employment principally reflected investment of foreign companies in the TIDZs, active labour market measures, including the introduction of a new project that provided tax and social contribution incentives to employers who hire youth and the long-term unemployed and the implementation of public infrastructure projects. Average gross wages in 2015 increased by 2.7% in nominal terms and by 3.0% in real terms, while average net wages registered nominal growth of 2.4% and real growth of 2.7% in comparison to 2014.

In 2015, total budget revenues increased by 10.5% compared to 2014. Tax revenues and social security contributions accounted for approximately 58% and 30% of total revenues, respectively. In 2015 tax revenue collection increased by 9.2%, while revenues from social security contributions increased by 8.4% compared to 2014. Total budget expenditures increased by 7.5% compared to 2014. In 2015, the budget deficit amounted to 3.5% of GDP, decreasing from 4.2% of GDP in 2014.

2016

Real GDP growth in 2016 amounted to 2.8%, as a result of the positive contribution from domestic demand, with gross capital formation increasing by 12.5% and final consumption increasing by 2.1% in real terms. Export growth continued in 2016, amounting to 9.1% in real terms, though net exports weighed on output growth as imports increased at a faster pace (by 11.1%), amid strong domestic demand. The services sector continued to exhibit strong growth, primarily as a result of increased activity in the trade, information and communication sectors and professional, scientific and other services. Construction activity registered a decrease by 2.8% year-on-year, due to a decline in building construction. The contribution of the agriculture and industrial sectors to GDP was also negative, registering a decrease of 0.4% and 3.0%, respectively.

Inflation in 2016 was negative 0.2%, largely as a result of the decline in oil and energy prices. The NBRNM increased the interest rate of CB bills to 4.00% in May 2016, as a response to increased political uncertainty in the country and a rapid decrease in deposits, and maintained it at this level until December 2016, when it was decreased to 3.75% as a step toward reaching the long-standing target interest rate of 3.25%. Bank support to the private sector continued, with total credits increasing by 6.5% annually in December 2016, while total banking deposits increased at annual rate of 5.7%.

The unemployment rate continued to decline in 2016, reaching 23.1% in the fourth quarter, which was 1.5% lower than the rate in the fourth quarter of 2015. In the same period, the employment rate also increased, reaching 43.5%. Average net wages in 2016 registered nominal growth of 2.0% and real growth of 2.2% compared to 2015.

Total budget revenues in 2016 increased by 5.1% compared to 2015, largely due to the higher tax collection rate. Tax revenues accounted for approximately 59.0% of total revenues, representing an increase of 7.7% compared to the previous year. Social contributions have increased by 5.0% compared to 2015 and accounted for approximately 30% of total revenues. Total budget expenditures increased by 2.6% compared to 2015, leading to a narrowing of the budget deficit to 2.7% of GDP from 3.5% of GDP in the previous year.

2017

Real GDP increased by 1.1% in 2017 compared to 2016, driven by net exports as export growth increased by 8.3%, while imports registered an increase of 5.2%. Consumption increased by 1.2% compared to 2016, due to a 2.1% growth in private consumption, whereas public consumption decreased by 2.6%. Gross investment contributed negatively to economic growth, registering a decrease of 2.2% compared to 2016, reflecting the prolonged domestic political crisis. Analysed by sector, the services sector continued to support economic growth, increasing by 3.2% in 2017 primarily as a result of increased activity in the trade sector, information and communication sector and professional, scientific and other services. The construction and industrial sectors contributed positively to economic growth, registering an increase of 1.6% and 1.4%, respectively, compared to 2016, whereas the agricultural sector experienced a 12.5% decrease compared to 2016.

Inflation in 2017 amounted to 1.4%, following a slight decrease in consumer prices in the previous three years and mainly reflecting higher fuel prices in line with global market movements, as well as rising prices of tobacco and communications services. Food prices remained unchanged in 2017.

The NBRNM completed its plans to restore the interest rate of CB bills to the long-standing target level of 3.25% by decreasing such rate to 3.50% in January and subsequently to 3.25% in February 2017. The total level of bank loans as of December 2017 increased by 5.4% on annual basis, while the level of bank deposits increased by 5.4%.

Positive trends in the labour market continued in 2017, with the unemployment rate decreasing to 21.9% in the fourth quarter of 2017, and the employment rate reaching 44.3% in the same period. The number of employed persons in 2017 increased by 2.4%, with the largest increases observed in the services sector, particularly in trade, hospitality and food services. Employment also grew in the industrial and construction sectors, but remained flat in the agricultural sector. Average net wages in 2017 increased by 2.6% in nominal terms and by 1.2% in real terms.

Total budget revenues in 2017 increased by 6.1% compared to 2016. Tax revenues increased by 4.6% and accounted for 58.2% of total revenues, while social contributions grew by 5.1% and accounted for 29.4% of total revenues. Total expenditures increased by 6.0%, with the budget deficit in 2017 remaining flat at 2.7% of GDP.

2018

Economic growth in 2018 increased by 2.7%, as a result of increased consumption and the positive contribution of net exports to economic growth. Exports of goods and service registered a strong increase of 15.6% in real terms, mainly reflecting export activity resulting from new production capacities in manufacturing of machinery, electrical and other equipment and motor vehicles, coupled with good performance from the traditional export segments, such as the metal and food industries. Imports of goods and services grew by 9.1% in real terms, driven by increased imports of intermediary goods. Consumption in 2018 grew by 3.4% in real terms, with private consumption increasing by 3.7% and public consumption increasing by 2.0%. Gross investments decreased by 7.3% in real terms, with some recovery recorded in the last quarter amid strong inflows of FDI. Analysed by sector, industrial sector growth amounted to 4.1%, strongly underpinned by intensified growth of 4.5% in the manufacturing sector. The services sector grew by 1.4%, primarily due to an increase in the trade, professional, scientific and other services sectors. While the agriculture sector recovered in 2018, registering real growth of 7.4%, activity in the construction sector fell by 11.9% due to a decline in civil engineering activity.

The inflation rate in 2018 amounted to 1.5%, in a context of stable price developments throughout the year. The increase in consumer prices primarily reflected a surge in fuel prices (10.7%), as well as core inflation (excluding food and energy), which amounted to 1.5%. Food prices increased by 0.9%.

In 2018, monetary policy was eased through three reductions of the interest rate on CB bills (of 25 basis points each, from 3.25% to 2.5%) throughout the year, reflecting moderate inflation and continued favourable trends on the foreign exchange market. In 2018, the banking system remained stable in conditions of solid liquidity and capital adequacy. In December 2018, total deposits in the banking system had increased by 10.5% on annual basis, while credit activity increased by 7.3% annually, both as a result of the increased credit support to both households and enterprises.

Favourable trends on the labour market continued in 2018, with stronger dynamics compared to 2017. In the last quarter of 2018, the unemployment rate decreased to 19.4%, representing a decrease of 2.5% compared to the same quarter in 2017. During the same period, the employment rate reached 45.9%. In conditions of increased labour demand supported by active labour market measures, the number of employed in 2018 increased by 2.5% compared to 2017, driven by employment gains in the industrial sector, in particular manufacturing, which accounted for approximately 40% of the newly created jobs. Such active labour market measures include financial support for those seeking to start a business, wage subsidies to promote job creation and the provision of training for the unemployed. The services and construction sectors also registered positive trends. Average net wages in 2018 increased by 5.9% in nominal terms and 4.4% in real terms compared to 2017.

Total budget revenues in 2018 increased by 4.9% compared to 2017, mostly as a result of a 9.4% increase in tax collections, bringing the share of tax revenues to 60.7% of total revenues. The collection of social contributions increased by 6.9%, whereas non-tax revenues decreased by 8.5%. Total budget expenditures in 2018 increased by only 1.8%, bringing the budget deficit down to 1.8% of GDP compared to 2.6% of GDP in 2017.

2019

In 2019, economic growth increased to 3.6%, following growth of 2.7% in 2018, reflecting strong domestic demand, as investment activity recovered (representing 6.6% real growth), due to an increase in construction activity and investment in capital goods. Consumption remained robust, with private consumption registering an increase of 3.5%, underpinned by rising wages, employment and household lending, while public consumption grew by 4.5%. Exports of goods and services increased by 8.3%, coupled with a 9.0% increase in imports, indicating a negative contribution of net exports to growth, compared to the positive contribution in the prior year. Analysed by sector, construction activity increased by 5.9%, reflecting positive developments in both construction and civil engineering. The services sector continued its positive trend, with trade, transportation, accommodation and food services leading growth, with an aggregate 4.7% increase in activity. The contribution to GDP of the industrial and agriculture sectors was also positive, registering increases of 3.1% and 3.8%, respectively.

According to data collected by the National Bank, between December 2015 and December 2020, household credit experienced a general upward trend, with growth rates of 12.9% in December 2015, 7.0% in December 2016, 9.2% in December 2017, 10.3% in December 2018, 10.5% in December 2019 and 8.0% in December 2020. Additionally, other non-financial corporate credit experienced a decreasing growth rate between December 2015 and December 2020, with growth rates of 7.3% in December 2015, negative 5.6% in December 2016, 2.1% in December 2017, 4.5% in December 2018, 1.9% in December 2019 and 1.3% in December 2020.

The inflation rate in 2019 was 0.8%, primarily driven by higher food prices, as well as higher tobacco product prices (in line with the gradual increase in excises). Core inflation (excluding food and energy) amounted 0.5%.

During 2019, monetary policy was further eased, with the CB bills rate being reduced by 25 basis points, from 2.5% to 2.25% in March, in a context of low and stable inflation, a sound current account position, positive developments in monetary and credit aggregates and further stabilisation of economic analysts' expectations. Total deposits in the banking system in December 2019 increased at an annual rate of 9.6%. Domestic currency deposits, which increased by 12.3%, accounted for 77.4% of the overall growth in deposits. Credit activity in December 2019 increased by 6.0% on annual basis, driven by a 10.5% increase in lending to households.

The unemployment rate continued to decrease in 2019, reaching 16.6% in the fourth quarter, representing a 2.8% decrease compared to the prior year. Unemployment decreased most significantly among the 15-24 age group. The employment rate amounted to 47.9% in the fourth quarter of 2019, representing an increase of 2.0% compared to the prior year. The number of employed persons in 2019 grew by 5.1%, with new jobs primarily being created in manufacturing and service activities. The average net wage in 2019 increased by 3.9% in nominal terms and by 3.1% in real terms. In April 2019, the net minimum wage increased to MKD 12,507 per month from MKD 12,165, and further increased to MKD 14,500 in December 2019.

Total budget revenues in 2019 increased by 8.2% compared to 2018. Tax revenues increased by 2.0% and social contributions by 10.0%. The share of taxes and contributions to total revenues amounted to 87.7% of total budget revenues. Total budget expenditures increased by 8.7%, due to higher realisations of both current and capital expenditures. The total budget deficit in 2019 represented 2.0% of GDP.

2020

Economic activity declined by 4.5% in 2020. During the second quarter of 2020, it dropped by 14.9% on an annual basis. This decline was due to the containment measures taken in response to the COVID-19 pandemic, such as the state of emergency declared on 17 March 2020 and the weakened international economic environment. Sectors such as industrial production, construction, trade, transportation and hospitality services suffered the largest declines in activity during 2020.

The impact of the COVID-19 pandemic on the North Macedonia economy was less substantial in the third and fourth quarters of 2020. Economic activity fell by 3.3% during the third quarter and by 0.7% in the fourth quarter. The slowed rate of decline was due to a rebound in investment and government expenditure growing at a high pace, while declines in private consumption and foreign trade lessened.

In 2020, activity in the services sector dropped by 2.6%. This was a caused by a decline in the trade, transportation and hospitality sector which experienced a 7.9% drop, partially offset by the favourable trends in the information and communication technology sector which grew by 2.8% in 2020. The industrial and construction sectors registered a decrease of 10% and 2.1%, respectively while the agriculture sector experienced a 1.7% growth. Private consumption decreased by 5.6% as remittances fell significantly, partially offset by strong public consumption (10.1% growth), reflecting increased expenditure to cope with the COVID-19 crisis. Gross investments dropped by 10.2%, reflecting lower investment in construction works, machinery and equipment. Exports dropped by 10.9% as a result of the deteriorated international economic environment and disruption in global supply chains. Imports decreased by 10.5%, mostly due to reduced import of intermediary goods. During 2020, North Macedonia's GDP declined by 4.5% as a result of the COVID-19 pandemic. See *"—Key Components of the Economy"*.

The inflation rate for 2020 was 1.2%, reflecting an increase of food prices by 2.6%, core inflation grew by 0.9% due to higher tobacco product prices (in line with the gradual increase in excises), while fuel prices dropped by 11.4%, in line with global market developments. See *"—Inflation"*.

Positive trends in the labour market continued in the first quarter of 2020 followed by a moderate decline due to the pandemic. Unemployment was reduced through targeted Government schemes for companies aimed at maintaining jobs and improving corporate liquidity. See *"—Employment and wages"*.

During 2020, monetary policy was further eased by reducing the Central Bank bill rates to 1.5% (first in January, and afterwards in March and May by 75 basis points in total), which is a record low. In addition, measures were taken to increase liquidity in the banking system by reducing Central Bank bill supply. New measures were also implemented to increase lending by reintroducing the measure that allowed banks to reduce their reserve requirements, this time on loans granted to the sectors most affected by the pandemic. Credit support in December 2020 increased by 4.7% on an annual basis, driven by increased lending to households by 8%, with the corporate sector benefiting from enhanced credit activity (1.3% growth), while total deposits in the banking system in December 2020 were higher by 5.9% on an annual basis.

In 2020, total realized budget revenues fell by 6.9% compared to 2019 as a result of the measures aimed at mitigating the effects of the COVID-19 crisis on the economy and the implications of reduced economic activity on tax revenues. Total budget expenditure in 2020 increased by 12% mostly as a result of increased health-related expenditure to manage the pandemic and fiscal measures aimed at supporting the economy. This led to the budget deficit widening to 8.1% of GDP for 2020.

Gross Domestic Product

The following table sets out certain annual information about the real GDP of North Macedonia for the periods indicated:

	Year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019(1)**	**2020(2)**
GDP at current prices (MKD millions).	558,954	594,795	618,106	660,878	689,425	664,010
GDP at current prices (€ millions)	9,072	9,657	10,038	10,744	11,209	10,766
Real GDP growth (%)..........................	3.9	2.8	1.1	2.9	3.2	(4.5)
GDP per capita (€)................................	4,382	4,659	4,839	5,175	5,398	5,187

Notes:

(1) Preliminary.

(2) Estimated.

Source: State Statistical Office.

The average real GDP growth rate of North Macedonia from 2014 to 2020 was 1.9%, which compares favourably to other countries in the region. The table below sets forth comparative real GDP growth rate data for the region from 2014 to 2019.

	2014	2015	2016	2017	2018	2019	Average
Albania	1.8	2.2	3.3	3.8	4.1	2.2	**2.9**
Bosnia and Herzegovina	1.1	3.1	3.1	3.2	3.7	2.7	**2.8**
Bulgaria	1.9	4.0	3.8	3.5	3.1	3.4	**3.3**
Croatia	-0.1	2.4	3.5	3.1	2.7	2.9	**2.4**
Greece..........................	0.7	-0.4	-0.2	1.5	1.9	1.9	**0.9**
Serbia...........................	-1.6	1.8	3.3	2.0	4.4	4.2	**2.4**
Slovenia	2.8	2.2	3.1	4.8	4.1	2.4	**3.2**

Source: International Monetary Fund, World Economic Outlook Database, October 2020

GDP by sector

The following table sets forth the composition of the real GDP by sector of North Macedonia for the periods indicated.

	Year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019(2)**	**2020(3)**
	(MKD millions)					
Agriculture...	54,369	54,559	48,665	55,980	55,477	60,381
Industry..	94,027	101,425	109,870	123,188	123,854	111,998
Construction	39,687	41,106	40,076	35,757	38,161	38,169
Trade, transportation and storage, accommodation and food service activities...	102,856	113,050	122,944	131,737	139,774	131,051
Information and communication..........	16,478	18,165	20,973	22,612	25,520	25,866
Financial and insurance activities	17,045	17,582	19,312	19,276	19,220	19,184
Real estate activities	61,518	59,635	59,432	66,152	68,399	67,830
Professional, scientific, technical and administrative activities	18,012	20,082	22,054	23,822	25,953	26,039
Public sector(1)	69,360	73,676	74,932	76,943	82,027	87,992
Arts, entertainment, recreation and other service activities	15,054	16,320	17,463	18,458	19,819	20,455
Value added...	488,408	515,601	535,726	573,923	598,204	588,965
Net taxes on products...........................	70,546	79,194	82,380	86,957	91,220	75,045
GDP	558,954	594,795	618,106	660,877	689,425	664,010

Notes:

(1) Public administration and defence; compulsory social security; education; human health and social work activities.

(2) Preliminary.

(3) Estimated.

Source: State Statistical Office. Data is according to the National Classification of Activities, NKD Rev.2, based on ESA 2010 Methodology.

The share of services in GDP, consisting of all categories presented above excluding agriculture, industry and construction, has been the largest, amounting on average to 54.7% during the period from 2015 to 31 December 2020. The share of services in GDP was 57% for the year ended 31 December 2020. The share of agriculture in GDP during the period from 2015 to 31 December 2020 was 8.7% on average. The share of agriculture in GDP was 9.1% for the year ended 31 December 2020. The share of industry in GDP during the period from 2015 to 31 December 2020 was 17.5% on average. This share of industry in GDP decreased to 16.9% for the year ended 31 December 2020 as a result of the COVID-19 pandemic which impacted industrial production and exports. The share of the construction sector in GDP during the period from 2015 to 31 December 2020 was 6.2% on average. This share of the construction sector in GDP was 5.7% for the year ended 31 December 2020. The construction sector, which had an increasing share of GDP in the years following the financial crisis due to efforts by the Government to improve its infrastructure and competitiveness, has decreased in the wake of the COVID-19 pandemic.

GDP by expenditure component

The following table sets forth the share of each GDP component in current prices according to the expenditure method for the periods indicated.

	Year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019(1)**	**2020(2)**
			(%)			
Final consumption, of which	85.8	82.3	81.6	80.1	79.7	83.2
Household final consumption	68.8	66.9	66.7	65.9	65.7	66.4
General government final consumption	17.0	15.4	14.9	14.3	14.0	16.8
Gross capital formation	30.4	32.5	32.3	32.3	34.5	29.6
Export of goods and services	48.7	50.7	55.1	60.4	62.3	58.1
Import of goods and services	65.0	65.5	69.0	72.8	76.5	70.9
Net export	(16.3)	(14.8)	(13.9)	(12.6)	(14.2)	(12.8)
GDP	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

(1) Preliminary.

(2) Estimated.

Source: State Statistical Office.

Final consumption holds the largest share of GDP and increased from 79.7% at 31 December 2019 to 83.2% at 31 December 2020. Household consumption, as the largest component of final consumption, has followed a similar trend with a share of 65.7% at 31 December 2019 which increased to 66.4% at 31 December 2020. Gross capital formation constituted 34.5% of GDP in 2019 and 29.6% of GDP for the year ended 31 December 2020. The shares of the external sector had seen steady increases from 48.7% in 2015 to 62.3% in 2020 for the export component and from 65.0% in 2015 to 76.5% in 2020 for the import component. During 2020, the share of the export of goods and services in GDP decreased from 62.3% to 58.1%. The share of the import of goods and services in GDP during 2020 decreased from 76.5% to 70.9%. This decrease reflects the impact of the COVID-19 pandemic on international trade and exports.

Inflation

The following table sets forth the average change in the consumer price index of North Macedonia for the periods indicated:

	Year ended 31 December					
	2015	2016	2017	2018	2019	2020
			(%)			
Consumer price inflation	(0.3)	(0.2)	1.4	1.5	0.8	1.2

Source: State Statistical Office

The inflation rate was negative in the period 2015-2016, mainly driven by the lower prices of food and energy products, which reflected the downward trend of global oil prices. While global prices for food and energy were key drivers of inflation during these periods, the liberalisation of imports over the period, including the process of further reducing average weighted customs rates initiated by the accession of North Macedonia into the WTO and the implementation of the SAA, has contributed to keeping inflation at low levels. However, the inflation rate once again became positive in the 2017-2019 period, although it was reduced almost by half in 2019 after prices had increased by 1.4% and 1.5% in 2017 and 2018, respectively. In 2020, the average annual inflation rate equalled 1.2%. This slight increase in inflation was mainly driven by an increase in the price of food and a rise in the prices of tobacco products (in line with the gradual increase in excise) and electricity. Fuel prices dropped by 11.3% during this period, in line with global market developments.

Key components of the economy

Industry

Historically, the traditional industrial sectors in the Macedonian economy have been steel and iron, textiles and clothing, food processing and tobacco. The average capacity utilisation in the manufacturing industry is gradually increasing and in December 2020 it reached 69.2%, approaching the level before the COVID-19 crisis.

The table below indicates the traditional industrial sector trade gap for years ended 31 December 2018 and 2019:

	Year ended 31 December							
	2018	2019	2018	2019	2018	2019		
	Export		Import		Trade gap		Change (%)	
	(EUR million, unless indicated otherwise)							
Steel and iron	542.2	580.2	455.5	431.3	86.7	148.9	62.2	6.2
Textiles and Clothing, total	536.4	511.6	548.7	543.2	(12.3)	(31.6)	(19.3)	-1.8
Textiles	80.6	78.3	461.1	448.6	(380.5)	(370.3)	10.2	1.9
Clothing	455.8	433.3	87.6	94.6	368.2	338.7	(29.5)	-5.4
Food and Tobacco, total	448.1	511.2	668.9	706.8	(220.8)	(195.6)	25.2	2.3
Food products	319.7	367.4	628.1	670.8	(308.4)	(303.4)	5.0	0.5
Tobacco and tobacco manufactures................	128.4	143.8	40.8	36.0	87.6	107.8	20.2	11.9

Source: State Statistical Office

The table below indicates the traditional industrial sector trade gap for the years ended 31 December 2019 and 2020:

	Year ended 31 December						
	2019	2020	2019	2020	2019	2020	
	Export		Import		Trade gap		Change trade gap
	(EUR million, unless indicated otherwise)						
Steel and iron	580.2	556.1	431.3	362.3	148.9	193.8	44,9
Textiles and Clothing, total	511.6	468.4	543.2	483.0	(31.6)	(14.6)	(17.0)
Textiles	78.3	107.1	448.6	393.0	(370.3)	(285.9)	(84.4)
Clothing	433.3	361.3	94.6	90.0	338.7	271.3	(67.4)
Food and Tobacco, total	511.2	488.3	706.8	692.0	(195.6)	(203.7)	8.1
Food products	367.4	363.2	670.8	664.5	(303.4)	(301.3)	(2.3)
Tobacco and tobacco manufactures	143.8	125.1	36.0	27.5	107.8	97.6	(9.8)

Source: State Statistical Office

In 2019, the principal components of industrial production were manufacturing (76.5%), mining and quarrying (11.2%) and electricity, gas, steam and air conditioning supply (12.3%). The largest components of manufacturing were food and beverage (13.3%), motor vehicles and semi-trailers (12.3%), textiles and clothing (12.1%) and machinery and equipment (8.9%). The remainder consisted of miscellaneous manufactured goods.

In December 2020, the principal components of industrial production were the same, manufacturing (76.5%), mining and quarrying (11.2%) and electricity, gas, steam and air conditioning supply (12.3%). The largest components of manufacturing were food and beverage (13.3%), motor vehicles and semi-trailers (12.3%), textiles and clothing (12.1%) and machinery and equipment (8.9%). The remainder consisted of miscellaneous manufactured goods.

Industrial output in North Macedonia has increased overall in recent years. The main performance drivers of industrial output have been the reopening of production and mine capacities, increased FDI in greenfield operations (particularly in relation to the automotive sector), links with new commercial partners in the region and the EU, technological improvements and continuous private sector development.

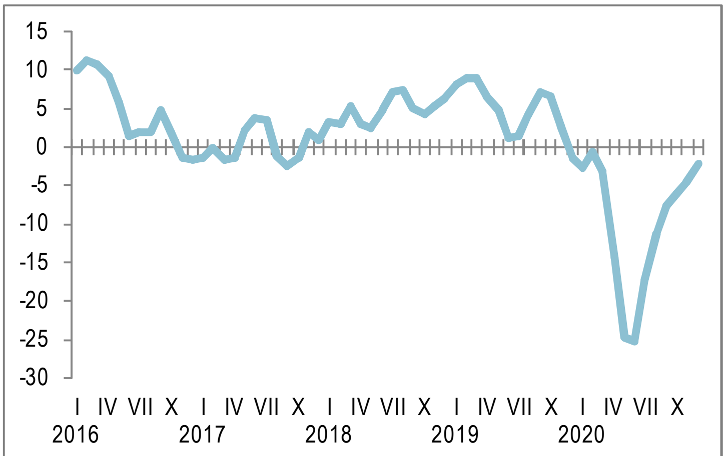
The following table shows industrial output as a proportion of industrial production for the periods indicated.

	Year ended 31 December				
	2016	2017	2018	2019	2020
Industrial output (index)	103.4	100.2	105.4	103.7	90.5

Source: State Statistical Office

In 2015, manufacturing capacity increased by 6.0%, with electricity, gas, steam and air conditioning supply increasing by 3.2% and mining and quarrying decreasing by 1.4%. Industrial production increased by 3.4% in 2016 compared to 2015. In 2016, manufacturing increased by 5.3%, electricity, gas, steam and air conditioning supply decreased by 1.4% and mining and quarrying decreased by 7.8%. In 2017, industrial production increased by 0.2% compared to 2016. In 2017, manufacturing decreased by 0.2%, electricity, gas, steam and air conditioning supply increased by 6.8% and mining and quarrying decreased by 1.8%. In 2018, industrial production increased by 5.4% compared to 2017. In 2018, manufacturing increased by 6.5%, electricity, gas, steam and air conditioning supply increased by 2.6% and mining and quarrying decreased by 1.4%.

The chart below outlines the industrial production growth year-on-year.



Source: MoF calculations based on SSO data

In 2019, industrial production increased by 3.7% compared to 2018. In 2019, manufacturing increased by 2.4%, with electricity, gas, steam and air conditioning supply increasing by 16.6% and mining and quarrying decreasing by 1.9%.

In 2019, of the main industrial sub-sectors, non-durable consumer goods represented the largest share (31.7%) of total industrial production; while durable consumer goods accounted for the smallest share (3.0%). In 2019, industrial production registered increases in energy, capital goods, durable consumer goods, and intermediate goods of 14.4%, 6.5%, 3.0% and 0.9%, respectively, and a decrease in non-durable consumer goods of 0.5%. In 2019, industrial revenue from non-domestic markets increased by 73.4% compared to 2014 and its share in total industry revenues (domestic and non-domestic markets) was 96.3%. Over the same period, the share of capital goods increased by 5.6%, primarily as a result of increased FDI. Industrial production in mining and quarrying decreased by 1.9% in 2019 compared to 2018, while the manufacturing and electricity, gas, steam and air conditioning supply sectors recorded an increase of 2.4% and 16.6%, respectively. The increase in manufacturing was primarily due to increased production in the manufacture of motor vehicles, trailers and semi-trailers, the manufacture of beverages, textiles, pharmaceutical products, electrical equipment and machinery and equipment. In 2019, industrial production registered increases in energy and capital goods of 14.4% and 6.5%, respectively, and increases in intermediate goods (excluding energy) and durable consumer goods of 0.9%, 3.0%, respectively, and a decrease in non-durable consumer goods of 0.5%. According to State Statistical Office data, the industrial production index in 2019 was 103.7 compared to 105.4 in 2018 and, in 2019, manufacturing industry production increased by 2.4%.

Throughout the first nine months of 2020, industrial production decreased by 9.5% compared to 2019 due to the COVID-19 pandemic. In 2020, manufacturing decreased by 9.9% with electricity, gas, steam and air conditioning supply decreasing by 10.1% and mining and quarrying decreasing by 6.3%.

In 2020, of the main industrial sub-sectors, the production of non-durable consumer goods represented the largest share (31.2%) of total industrial output while durable consumer goods accounted for the smallest share (2.3%). In 2020, industrial production decreased in the following sub-sectors: energy, capital goods, durable consumer goods, non-durable consumer goods and intermediate goods by 10.0%, 14.5%, 29.5%, 9.1% and 4.1%, respectively.

In the period between November and December 2020, the total turnover index in industry was 90.9. Turnover index in industry on non-domestic markets was 89.6 and turnover index on domestic market was 96.2, registering some lowering compared to same period in 2019.

Industrial production related to mining and quarrying decreased by 6.3% in 2020 compared to 2019, while the manufacturing and electricity, gas, steam and air conditioning supply sectors recorded a decrease of 9.9% and 10.1%, respectively. The decrease in manufacturing was primarily due to a decrease in the manufacture of motor vehicles, trailers and semi-trailers, textiles, beverages, food products, non-metallic mineral products, electrical equipment and machinery and equipment as a result of COVID-19.

In 2020, industrial production of basic pharmaceutical products; rubber and plastic products; chemicals; and computer and electronic hardware increased by 11.6%, 11.5%, 9.3% and 20.5% respectively.

According to preliminary State Statistical Office data, the total value of exported goods from the Republic of North Macedonia in 2019 amounted to EUR 6.4 billion, representing a 9.6% increase compared to the prior year, while the value of imported goods in the same period amounted to EUR 8.4 billion, or 10.3% more than in the prior year. The trade deficit in 2019 was EUR 2.0 billion. Import coverage by export in 2019 was 75.9%. According to total external trade volumes in 2019, the most important trading partners of the Republic were Germany, the UK, Greece, Serbia and Italy.

According to preliminary State Statistical Office data, the total value of exported goods from the Republic of North Macedonia in 2020 amounted to EUR 5.8 billion, representing a 10.0% decrease compared to the prior year, while the value of imported goods in the same period amounted to EUR 7.6 billion, or 10.0% less than the prior year. The trade deficit in 2020 was EUR 1.8 billion or 9.8% less than the previous year. Import coverage by export in 2020 was 76.1%. The reductions in exports and imports reflects reduced consumer demand in both North Macedonia and other countries due to the COVID-19 pandemic. According to total external trade volumes in the period between January to November 2020, the most important trading partners of the Republic were Germany, the UK, Serbia, China, Greece, Bulgaria and Italy.

Since 2010-2011, there has been a gradual change in the structure of industrial production following the opening of new facilities to create products with higher technological value, particularly in the TIDZs.

Currently eight out of 15 TIDZs are operational. Through 2020, the TIDZs attracted 32 companies in total, including large multinationals in the automotive, electronics, machinery and equipment manufacturing sectors that have invested approximately €310 million in production facilities in North Macedonia. The TIDZs have created over 14,100 jobs and manufacture over 45% of national exports, primarily chemical industry products as well as machinery and transport equipment. The TIDZs have been a catalyst for the diversification of overall country exports.

Recent export performance of North Macedonia indicates that FDI in the automotive sector, as well as other non-traditional manufacturing, have had a significant impact on the country's export profile and labour market.

Electricity and Gas

The Government is committed to becoming energy independent. In 2019, the total gross-primary production of energy in North Macedonia was 1,133 tonnes of oil equivalent ("**TOE**"), or 51.3% of the total domestic energy requirements. In accordance with an action plan for renewable energy sources, the share of renewables was 18.0% and 19.2% in 2018 and 2019, respectively.

Approximately 54% of the energy requirements of North Macedonia are sourced on the open market. Over the medium- to long-term, North Macedonia expects to satisfy its energy requirements with domestic lignite reserves, imported gas and renewable resources such as hydroelectricity and electricity imports.

Electricity Production

The following table shows electricity production, imports, exports and consumption of North Macedonia for the periods indicated:

Year	Production	Import	Export	Consumption
		(GWh)		
2016	5,384	2,191	160	7,661
2017	5,378	2,293	311	7,522
2018	5,447	2,297	377	7,359
2019	5,658	1,825	646	8,130
2020	4,900	2,965	638	6,734

Source: Electricity Balances and Annual Reports of the ERC.

North Macedonia has a total installed power generation capacity of 2,087 MW, of which 1,054 MW come from thermal power generation, 587 MW are from hydro power plants, 287 MW are combined heat and power from natural gas, 111 MW are from small hydro power plants, 36.8 MW are from wind plants, 24 MW are from photovoltaics and 7.0 MW are from biogas. Coal-fired thermal power plant generation capacity accounts for approximately 800 MW. Coal used in thermal power plant operation is primarily obtained domestically and is a low calorie lignite grade. A fuel oil thermal power plant provides a further 210 MW of installed capacity. In 2019, total installed capacity increased by 10.9 MW compared to 2018.

As part of the Government's intention to liberalise the electricity market, the vertically integrated Electricity Power Company of North Macedonia ("**ESM**") was divided into four legally separate enterprises between 2004 and 2005. The Electricity (Transmission) System Operator ("**MEPSO**") of North Macedonia is owned and controlled by the Ministry of Transport and Communications and is responsible for the transmission of electricity and managing the high voltage transmission network, operating the electricity central despatching system and implementing the market operations. ESM is owned and controlled by the Government and is responsible for electricity generation.

JSC EVN Makedonija, which distributes and provides the retail supply for tariff customers, was privatised in 2006 through the sale of 90% of its shares by public tender to the Austrian company, EVN AG. In 2016, in accordance with the changes to the Energy Law, EVN AG Macedonia established an operating company, EVN Elektrodistribucija DOOEL Skopje, for its electricity distribution activities and, following approval of the Energy Regulatory Commission, transferred its existing licence to the new operating company.

Energy Regulation

In 2018, the Assembly of the Republic of North Macedonia adopted the new Energy Law, which entered into force. This new Energy Law implemented the provisions laid out in the EU Third Energy Package and the EU Renewable Energy Directive. The new Energy Law stipulates the unbundling of ownership of the electricity transmission system operator, as well as certification and appointment of an electricity transmission system operator in accordance with Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC. Accordingly, in March 2019, the Energy and Water Services Regulatory Commission (the "**ERC**") submitted a draft decision to the Energy Community Secretariat to certify AD MEPSO Skopje as the electricity transmission system operator. Based on the Energy Community Secretariat's approval, the ERC appointed JSC MEPSO Skopje as the electricity transmission system operator.

The new Energy Law also establishes MEMO DOOEL Skopje as the national electricity market operator. In September 2019, the ERC issued a license to MEMO DOOEL Skopje to organise and manage the electricity market, beginning in October 2019.

EVN HOME DOO Skopje was formed as a joint venture between EVN Macedonia JSC Skopje and EVN Elektrodistribucija DOOEL Skopje. In May 2019, the ERC issued a license to EVN HOME DOO Skopje to provide electricity as the universal supplier beginning in July 2019. EVN HOME DOO Skopje supplies small consumers and households that have defaulted to the universal supplier rather than choosing their own supplier, or consumers whose suppliers have defaulted in their supply.

The new Energy Law established a new premium for preferential producers of electricity from renewable energy sources, which can be allocated to producers pursuant to a competitive procedure. Feed-in tariffs and feed-in premiums are support mechanisms in order to increase the share of renewable energy sources. Feed-in tariffs are fixed purchase prices, determined on the basis of (i) an assumed equivalent number of hours of operation per year using maximum power, (ii) the installed capacity of the plant, and (iii) the initial cost of investment in the construction of the power plant. As further financial support to encourage the generation of renewable energy, feed-in tariffs will continue to be awarded on a "first-come, first-served" basis, with the exception of hydropower. Preferential producers using feed-in tariffs then sell electricity to the electricity market operator, MEMO DOOEL Skopje. The feed-in premium represents an additional amount of the price that the producer realises upon the sale of the electricity on the wholesale market. The feed-in premium can be fixed or variable. In North Macedonia, a fixed feed-in premium is applied in an amount determined through a competitive procedure. The maximum amount of the fixed feed-in premium is calculated according to a methodology that is part of the Decree on support measures for electricity produced from renewable energy sources. Feed-in premiums are paid from the State Budget.

A preferential producer using a premium may not use feed-in tariffs and is required to sell its electricity on the wholesale market. The procedures for selecting producers that are entitled to use the premiums were implemented by the Ministry of the Economy. In June 2019, the Ministry of the Economy commenced the process of awarding eleven contracts for the right to use a premium for electricity produced from photovoltaic power plants built on State-owned land to investors who won the electronics auction. These contracts allocated a premium of 35 MW of electricity.

In July 2019, the Ministry of the Economy issued a Public Announcement to award a contract for the right to use an electricity premium produced by photovoltaic power plants built on State-owned land or on land owned by the State on which it has established the right of use. The total installed capacity of photovoltaic plants for which a premium will be awarded is 27 MW. The contracts in relation to this photovoltaic power plant were signed in May 2020. As of 31 December 2020, three photovoltaic power plants with total installed capacity of 1.6 MW have been built.

The energy policy of the Republic of North Macedonia is defined in the Energy Development Strategy (the "**EDS**"). The EDS is renewed every five years and is valid for a period of at least 20 years. In January 2020, the Government adopted the new Energy Development Strategy 2020-2040 which includes the national strategy for phasing out coal as an energy source by 2025. The EDS outlines six strategic goals for North Macedonia: maximise energy savings, maintain current levels of energy dependence, limit the increase of greenhouse gas emissions, increase the share of renewable energy sources, minimise system costs and ensure continuous harmonisation with the EU Acquis. These strategic goals are in line with the new Energy Law and the EU's energy directives. The EDS is currently being revised in light of the COVID-19 pandemic.

In February 2020, the Government of the Republic of North Macedonia adopted the Law on Energy Efficiency, which implements EU energy efficiency regulations. The law stipulates obligations related to energy efficiency in the transmission, distribution and supply of energy, thus supplementing the relevant provisions of the new

Energy Law. Suppliers and distributors will be required to implement measures that generate savings in energy usage. The law reinforces the requirement to display the energy efficiency class and eco-design of energy-efficient products offered in Macedonian markets.

Since 2019, the electricity market in North Macedonia has been fully liberalised, with all electricity consumers having the option to choose their supplier. Under the new Energy Law, each consumer has the right to engage its own electricity supplier through the market. As of February 2020, there are 31 licensed electricity suppliers and 57 licensed electricity traders. In 2019, 11 suppliers were active in the retail market, including one universal supplier, while 21 electricity traders were active in the wholesale market. The remaining 20 electricity suppliers and 36 electricity traders were licensed but not active in the market. North Macedonia also imports electricity.

The Government's current electricity development programme includes the planned construction of 400 small hydro power plants, each with capacity of less than 5 MW and with total capacity of approximately 250 MW. Development of these plants is expected to be assigned to private operators via Government concessions, with a number of such contracts already executed. The annual electricity generation from these small hydro power plants is expected to amount to approximately 1,200 GWh, with a total investment by the concession grantees of approximately €300 million.

As at 31 December 2020, of the 400 small hydro power plants to be built in connection with the Government's electricity development programme, 101 small hydro power plants were operational with installed capacity of approximately 111.4 MW and annual electricity generation of 263 GWh. 14 new small hydropower plants are operational with 16.9 MW. An additional 22 small hydro power plants are in the construction phase with planned installed capacity of approximately 27.5 MW. Throughout 2019 and 2020, the Ministry of Environment and Physical Planning processed a further 18 approvals for the construction of the additional small hydro power plants with 18.9 MW.

Oil and natural gas

The following table shows natural gas and oil consumption of North Macedonia for the periods indicated:

	2015	**2016**	**2017**	**2018**	**2019**
			(kilo-tonnes)		
Oil	969	1,087	1,037	993	1,011
Gas	110	176	226	209	248

Source: State Statistical Office

North Macedonia does not have any domestic oil or gas deposits. As a result, its gas is supplied pursuant to agreements with Gazprom and its affiliates. North Macedonia has a 159-kilometre gas pipeline system extending from the Bulgarian border to Skopje and Stip, with a total capacity of 800 million cubic metres. Currently, this pipeline is significantly underutilised, with utilisation of approximately 42%. North Macedonia intends to increase use of the pipeline to meet rising domestic demand for gas by extending its local distribution networks to urban areas, particularly along the gas transportation corridor in the Southern and Western parts of North Macedonia. As the price of natural gas depends on the quantity of gas transported through the pipeline, increased domestic gas usage may result in a lower domestic price of natural gas per cubic metre. The extension of its local networks combined with renewed efforts to extend connectivity to international gas pipeline corridors form the basis of the National Gasification System.

In order to meet the forecasted demand for natural gas, NER JSC Skopje (a wholly State-owned company) is undertaking on-going activities for further expansion of the existing gas pipeline system in North Macedonia and its connection to regional gas pipeline systems. Negotiations are also on-going to secure additional quantities of natural gas via the interconnection with Greece from the Trans Adriatic Pipeline ("**TAP**"). In addition, construction of the 61-kilometre Section Klechovce Block Station 5 (near the City of Shtip), which was funded by Russia in repayment of debt obligations owing to North Macedonia in respect of amounts owed by Russia to jurisdictions formerly a part of Yugoslavia, was completed in June 2016.

In November 2015, the Republic of Macedonia received a loan of €90 million from Deutsche Bank and Erste Group Bank to finance the "Gasification of the Republic of Macedonia - Phase 1 - section Shtip - Negotino - Bitola (127 kilometres in length) and section Skopje - Tetovo - Gostivar (75 kilometres in length)" project, for the first phase of construction of the national gas transmission system of the Republic of North Macedonia. This construction began in 2016, and is expected to be completed by the end of 2021. The second phase of construction of the national gas transmission system of the Republic of North Macedonia is expected to be constructed by the end of 2021. This phase includes construction of the Gostivar-TPP Oslomej-Kicevo section (34 kilometres in length) at a cost of €14.5 million, and the Sveti Nikole Veles section (28 kilometres in length), which is in the project documentation preparation stage, the Kicevo Ohrid section (50 kilometres in length) and the Ohrid Bitola section (65 kilometres in length) which are both in the tender documentation preparation stage. These remaining sections are expected to cost approximately €30.5 million. Funding is expected to be provided by international financial institutions, the European Investment Bank, the EBRD and others.

In accordance with the development of international gas pipelines, there are several possibilities for interconnection of the gasification system in the Republic of North Macedonia with the TAP, IAP, neighbouring LNG terminals and others. In 2020, the Energy Community Secretariat, along with technical advisors and experts including REKK and DNV GL, conducted an extensive evaluation of potential projects of interest for the Energy Community. This list includes two projects of interest in North Macedonia (for a gas connection with Serbia and Kosovo) and one project of mutual interest in North Macedonia (for a gas connection with Greece). The following projects are currently in the final stages of development.

- The Project of Mutual Interest (Regulation (EU) No 347/2013) gas connection between the Republic of North Macedonia and Greece;
- The FS and CBA for PMI gas interconnection project between the Republic of North Macedonia and Greece was completed in 2019 at a cost of €54 million;
- The final stage of preparation for the Final Design with Environmental Impact Assessment Study, to be financed pursuant to technical assistance from Connecta by the beginning of 2021;
- Gas interconnection project between the Republic of North Macedonia and Kosovo.

In June 2019, a technical assistance grant from the WBIF (West Balkan Investment Framework) mechanism for the preparation of a feasibility study for the North Macedonia - Kosovo Interconnection was approved. The preparatory works for the Feasibility Study and Environmental Impact Assessment Study is underway. The project will be funded by the EBRD.

In February 2020, the Government announced that tenders for a contract for a public-private partnership ("**PPP**") to finance, design and construct the Natural Gas Distribution System in North Macedonia. Two private investors expressed their interest in the project and have entered the second phase of the tender process. Grant Thornton Greece has been selected by the EBRD to perform an updated feasibility study regarding the development of distribution networks in North Macedonia for the purposes of this tender.

In addition to using natural gas in industrial and municipal buildings, there are initial activities in the municipalities of Kumanovo and Strumica to connect interested households to the local gas distribution grids.

North Macedonia remains committed to accelerating the integration of the Central and Southeast European gas markets and diversifying gas supplies by utilising natural gas from the Caspian Sea region, which would provide great economic assistance to Central and Southeast European countries. The Government intends to finance further work on the main pipeline of the National Gasification System with a loan from international financial institutions. In October 2019, the Ministry of Finance, in cooperation with NER JSC Skopje, received a letter of interest from the EBRD to provide funding for the construction of gas main pipelines Section Gostivar-Kichevo and Section Sveti Nikole-Veles. The Government hopes to engage in a similar partnership for the entire country of North Macedonia in the future. See "*Overview of the Republic of North Macedonia—International Relations—Projects jointly financed by International Financial Institutions*".

North Macedonia also supports a number of programmes to develop the capacity of its hydropower, wind and other renewable energy facilities. See "*Overview of the Republic of North Macedonia—International Relations—Relationship with International Organisations and Private Foreign Investors—European Bank for Reconstruction and Development*".

Textiles and Clothing

Manufacturing of textiles and clothing accounted for 12.1% of total industrial production in 2020 and 8.1% of total exports in 2020 (comprised of 1.9% textiles and 6.2% wearing apparel). Textiles and clothing accounted for 12.1% of total industrial production and 7.9% of total exports in 2019. During the same period, textile manufacturing (which accounted for 3.6% of total industrial production) increased by 7.5% and clothing manufacturing (which accounted for 8.5% of total industrial products) decreased by 7.3%. In 2018, clothing and textiles comprised 9.2% and 1.9% of total exports, respectively, while imports of clothing and textiles were 1.1% and 6.0% of total imports, respectively.

During 2020, industrial production volume indices for textile manufacturing (which accounted for 4.55% of total industrial production) decreased by 11.2% and manufacturing of wearing apparel (which accounted for 7.5% of total industrial products) decreased by 13.9% compared to 2019. The growth of textile and clothing production results from the general expansion of economic activity and demand from the main trading partners of North Macedonia in the EU, which contributed to increased demand from domestic textile companies. Some growth was also attributable to an increased level of value added in the final products as a result of new FDI investments. The growth of textile production continued in 2017, 2018 and 2019, having increased by 1.4%, 9.9% and 7.5%, respectively, representing a 19.8% cumulative growth rate over the period, while clothing production decreased by 15.6%, 4.7% and 7.3% in 2019, representing a cumulative reduction rate of 25.5% over the period.

There are Government programmes in place to further develop the textile industry and attract additional foreign investment. These include (i) the development of human resources through the improvement of infrastructure and quality of education, (ii) the establishment of a Textile Marketing Research Centre and a Centre for Design and Quality Control Centre, (iii) facilitating competitiveness of textile exports and support of export expansion, (iv) assistance for increasing business cooperation with respect to textile products in the EU, Russia, Ukraine, other Eastern European countries and the United States and (v) the creation of a favourable business environment through the improvement and harmonisation of laws relating to the formation, development, growth and closure of business with EU law.

Metals and Mining

Basic metals manufacturing accounted for 3.9% and 4.34% of total industrial production in 2019 and 2020, respectively, and mining and quarrying accounted for 10.7% and 11.24% of total industrial production in 2019 and 2020, respectively.

In 2018, iron, steel, metal ore, metal scrap and non-ferrous products (which includes components of both basic metals manufacturing and mining of metal ores) accounted for 15.0% of the total exports of North Macedonia, with exports principally to Serbia, Greece, Bulgaria, Italy, Romania, The Netherlands, Croatia and Germany, and 22.8% of total imports, with imports principally from Romania, Greece, Bulgaria, Serbia, Italy and

Belgium. In 2019, the manufacturing of basic metals comprised 10.4% of total exports and 22.4% of total imports, while metal ores comprised 3.7% of total exports and 2.1% of total imports. In 2019, North Macedonia primarily exported to Serbia, Greece, Bulgaria, Italy, Romania, the Netherlands, Germany and Finland, and primarily imported from Romania, Greece, Bulgaria, Germany and Belgium.

In 2020, the manufacturing of basic metals comprised 9.8% of total exports and 18.9% of total imports, while metal ores comprised 3.6% of total exports and 1.8% of total imports.

In 2018, basic metal manufacturing grew by 7.9%, due to a slight increase in the price of metals. In 2019, basic metal manufacturing decreased by 2.3%, due to EU safeguard measures for steel and steel products. Companies expect to experience greater demand in the future as a result of the recent large-scale infrastructure projects announced in the Balkan region. These EU safeguard measures were still in place as of 31 December 2020 and have limited exports of steel and steel products from North Macedonia.

Based on geological research of its mineral resources, the Government believes that there is significant potential for an increase in mining activity in North Macedonia and is actively looking to mining as a potential source of development with the assistance of foreign investors. Projects include the development of (i) the Plavica mine near Kratovo and Probistip (copper, gold and silver – Concessioner Silgen Kratovo), (ii) the Luke-Toranica mine near Kriva Palanka (lead, zinc, copper, gold and silver – Concessioner Ri-Energetika Skopje) and (iii) the Borov Dol mine near Radovish (copper – Concessioner Borov Dol Radovish). The development of the mining sector is also expected to contribute to additional investment in ore-processing facilities.

The Zletovo and Toranica mines, which are lead and zinc mines, opened in 2016 after having been awarded to Concessioner-Bulmak 2016 DOOEL Probistip, to whom the Ministry of Economy issued exploitation licences. The Sasa mine, which is also a lead and zinc mine, recently expanded its concession in 2019 and in 2021 further investment in this project is predicted. In 2020 a new concession for detailed geological research for coal was granted to JMP Kop International Skopje in the locality od Zabrdo, municipality of Novaci. According to the Mineral Resources Law, research must commence within 2021.

Agriculture

Agricultural exports and imports accounted for 9.7% and 9.9%, respectively, of overall exports and imports of the Republic of North Macedonia in 2019. In the two-year period between 2018 and 2019, the agricultural and food exports of North Macedonia, primarily comprising tobacco, fresh and processed fruits, vegetables biscuits and waffles and wine, recorded a 14.5% increase, from €546 million in 2017 to €625 million in 2019, a trend that is expected to increase. In the same period, imports increased by 5.7%, from €792 million to €837 million in 2019. The Republic's most important trade partner is the EU. In 2019, the total value of agricultural trade with the EU amounted to €720 million, of which 49.7% related to exports and 48.9% related to imports. CEFTA countries (Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia and Kosovo) are the second most important trade partners and accounted for 35.1% of total agriculture exports and 28.5% of total agriculture imports in 2019, with a total trade value of €458 million. Of the CEFTA countries, Serbia accounted for the largest portion of trade with 10.9% and 22.8%, respectively, of total exports and imports.

Overview of agricultural trade by country in 2018 and 2019:

	Export				**Import**				**Trade Balance**	
Country	**2018**		**2019**		**2018**		**2019**		**2018**	**2019**
	(Value € millions)	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	
Albania	20.9	3.8	18.9	3.0	6.9	0.9	6.9	0.8	14.0	12.0
Bosnia and Herzegovina	30.6	5.6	33.6	5.4	25.4	3.2	29.3	3.5	5.2	4.3

Country	Export				Import				Trade Balance	
	2018		2019		2018		2019		2018	2019
	(Value € millions)	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	
Serbia............................	69.2	12.7	68.1	10.9	186.9	23.6	191.0	22.8	-117.7	-122.9
Kosovo	48.4	8.9	80.1	12.8	8.1	1.0	8.6	1.0	40.4	71.5
Monte Negro	14.9	2.7	16.9	2.7	1.5	0.2	1.7	0.2	13.4	15.2
Moldova	1.04	0.2	1.6	0.3	0.9	0.1	0.8	0.1	0.1	0.8
CEFTA-Total	185.0	33.9	219.2	35.1	229.7	29.0	238.3	28.5	-44.6	-19.1
EU-28-Total	275.7	50.5	310.6	49.7	394.5	49.8	409.4	48.9	-118.8	-98.8
Turkey	4.3	0.8	3.0	0.5	27.0	3.4	25.9	3.1	-22.7	-22.9
Brazil	0.4	0.1	1.0	0.2	35.3	4.5	35.5	4.2	-34.9	-34.5
USA	26.6	4.9	24.2	3.9	8.4	1.1	9.7	1.2	18.2	14.5
Other countries.............	53.5	9.8	66.5	10.7	97.3	12.3	118.3	14.1	-43.8	-51.8
TOTAL whole world.................	545.5	100	624.5	100	792.1	100	837.1	100	-246.6	-212.6

Overview of total trade and trade with agricultural and fishery products between 2015 and 2019:

	Export					Import					Trade Balance				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
	€ millions (unless otherwise stated)														
Total trade	4,051.2	4,329.3	5,007.2	5,860.8	6,423.7	5,776.9	6,176.5	6,824.9	7,671.9	8,463.2	(1,725.7)	(1,777.5)	(1,817.7)	(1,811.1)	(2,039.5)
Total trade with agricultural, processed and fisheries products	486.7	530.5	536.2	545.5	624.5	700.6	718.0	759.8	792.2	(212.7)	(213.9)	(187.5)	(223.6)	(246.7)	(212.7)
Share of agricultural, processed and fisheries products in total trade...	12.0%	12.3%	10.7%	9.3%	9.7%	12.1%	11.8%	11.1%	10.3%	9.9%	12.4%	10.6%	12.3%	13.6%	10.4%

In 2019, the principal agro-food export products of North Macedonia into the 28 countries which make up the EU (the "**EU-28**") were: unmanufactured tobacco (30.8%); biscuits and wafers (10.1%); wine (8.4%); other prepared or preserved vegetables (7.5%); live plants and cuttings (5.5%); cabbage (5.1%); fresh or frozen vegetables (4.2%) and lamb meat (2.7%).

In 2019, total exports (industrial and agro-food products) increased by 9.6% compared with 2018. In the same period, total imports increased by 10.3%. The export share of agro-food and fishery products from the Republic of North Macedonia in 2019 increased slightly compared to 2018, amounting to 9.72%. The import share of agro-food and fishery products into the Republic of North Macedonia in 2019 decreased slightly compared to 2018 and amounted to 9.9%. The trade deficit in 2018 increased by 10.3% and amounted to €246.6 million, while in 2019 the trade deficit decreased by 13.8% and amounted €212.7 million.

Agriculture is an important sector for the national economic reform agenda. The National Strategy for Agriculture and Rural Development 2021 to 2027 was adopted by the Government on 16 January 2021 and entered into force on 21 January 2021. It aligns with the EU's Common Agriculture Policy objectives which are: (i) to ensure a fair income to farmers; (ii) to increase competitiveness, in order to rebalance power in the food chain; (iii) climate change action; (iv) environmental protection, in order to preserve landscapes and biodiversity; and (v) to support generational renewal, vibrant rural areas and to protect food and health quality. The implementation of a broad range of development measures, which are expected to strengthen industrialised production, will be built on its production levels. Such measures include utilisation of the Instrument for Pre-Accession Assistance for Rural Development ("**IPARD**"), which for the financial period 2021-2027 is projected to be in the amount of €82 million, by farmers for modernisation of farms.

In 2017, the Government adopted the National Programme for Agricultural and Rural Development for the period 2018-2022. The 5-year national programme for rural development emphasises the acceleration of such development, with measures to be taken on the basis of problems identified by the World Bank, including the modernisation of production, the introduction of new technologies, increasing processing capacities, the modernisation and capacity increase of irrigation systems as well as climate change. The national programme for rural development also includes €40 million earmarked for investors to invest in the modernisation of farms.

In order to ensure increased return on Government agriculture expenditure, the projected increase in state support funds for agriculture and rural development in the period after 2020 (from €140 to 200 million per year) will be allocated for co-financing private and public investments (in rural infrastructure, especially in irrigation), organization of agricultural markets, interventions for structural improvement of the land properties (consolidation) and for enhancing the knowledge, innovation and digitalization (advisory services, research, education and trainings). By the end of 2027, it is anticipated the relative share of funds shall double compared to 2020 to at least 35% of the total allocated funds (or in an absolute amount of at least €70 million annually).

The implementation of the National Strategy for Agriculture and Rural Development 2014-2020 has been regularly monitored. The latest progress report was reviewed and adopted by the Government in December 2019. The report analysed outcome indicators and whether certain targets had been achieved. Agricultural production has increased overall, reaching a peak of €1.4 billion in 2016, but with lower than projected levels. In 2017, there was a 10% decline, particularly in crop production due to the effects of adverse weather patterns. In the period 2016 to 2019, annual export of agricultural products remained above the €500 million mark, reaching a peak of €545.5 million in 2018, in line with projections under the new strategy. However, the trade balance has had a net negative value overall, reaching a trade deficit of €246.6 million in 2018 due to a significant increase in the quantity and value of imported products. In 2019, the total value of agricultural exports was €624 million, with total imports of €837 million.

In the period between 2014 to 2020, State support to the agricultural sector averaged €123.8 million per year, or 8.6% of the value of agricultural production, compared to a projection of €150 million and an average of €138 million allocated to agriculture in the annual central budgets. The average share of disbursements to Rural Development Programs, from both national and EU sources, amounted to approximately 18% of €141 million in 2019. The cumulative growth in the rate of fixed capital investment in the agricultural sector between 2014 and 2018 was 28%, while the average annual growth rate was 6%.

In 2017, the Government adopted the National Programme for Agricultural and Rural Development (2018-2022). The programme transforms long-term strategic planning into medium-term activities, thus providing a basis for drafting policy and implementing acts for State support of agriculture and rural development.

In accordance with the programme, since 2018, the Ministry has implemented a number of activities that are not part of the national strategy, but are part of the new Governmental Work Programme for the 2017-2020 period. These include the introduction of support to compensate for the costs of fuel for agricultural machinery, amendments to current legislation to provide increased support for young farmers, the simplification of wine production and marketing procedures, and improvements to the process of leasing and selling State-owned agricultural land.

In line with the 2018-2022 strategic document, annual budgetary support for the agriculture sector has gradually increased from an average of approximately €129.7 million in 2018 to €138.5 million in 2019, with the ultimate aim of reaching approximately €160 million by 2022. As presented in the table below, the funds allocated for implementation of state support policies in agriculture and rural development for the period 2018-2020 do not deviate from the average of annually allocated and implemented funds.

Review of funds by support programmes in agriculture and rural development for the period 2016-2020:

	2016		**2017**		**2018**		**2019**		**2020**	
	Allocated	**Disbursed**	**Allocated**	**Disbursed**	**Allocated**	**Disbursed**	**Allocated**	**Disbursed**	**Allocated**	**Disbursed**
	MKD millions									
Financial programmes										
For agriculture – direct payments	6320	5491	6394	6329	6,211	6,751	6,264	7,138	4,000	3,293
For rural development – contract based payments	1884	1658	1322	1707	2,132	1,128	2,162	664	1,060	428
For fisheries and aquaculture	—	—	—	—	90	16	90	25	90	—
For tobacco production	—	—	—	—	—	—	—	—	1,800	1,900
Total	8204	7149	7716	8036	8,433	7,978	8,516	7,827	6,950	5,621

The U.N. Food and Agriculture Organisation is supporting on-going initiatives in North Macedonia against climate change, food safety and quality in the dairy sector, community development initiatives and land management and consolidation of agricultural land to enable the efficient utilisation of land parcels. Rental income generated from State-owned agricultural land increased by almost 50% in 2018 compared to 2016. In 2016, this added €4.1 million to the budget; in 2018, the amount totalled nearly €7.3 million. In the last two years, there has been a significant increase in revenues generated by leases of State-owned agricultural land. The implementation of the national warranty scheme is underway, which comprises the issuance to farmers of State warranties in order to facilitate the application process for bank loans; this scheme will enable increased investments in the sector and better use of pre-accession funds under the IPARD Programme 2014-2020 and upcoming program for the period 2021-2027.

The key areas of focus for capital investments in agricultural and rural development are: (i) grant schemes for private investments in agriculture and food processing, (ii) diversification of rural economic activities, (iii) municipal investments in local rural infrastructure to improvements in quality of life, and (iv) public investments in irrigation and drainage systems. For example, over the next three years an investment of €48 million out of a total of €71.2 million is planned for the development of the Konsko and Recani dams through the national programs of the Ministry of Agriculture, Forestry and Water Economy ("**MAFWE**") of North Macedonia. Additionally, the second phase of the implementation of the South Vardar Valley irrigation project (at a cost of €17 million) is being funded by the KfW. The KfW has also granted a loan of €80 million to the Republic to invest in irrigation projects such as the Lisice system (a project to increase water supply in the Caska municipality, the second phase of the Konsko dam project, the third phase of the South Vardar Valley irrigation project and Pepelishte project (improvement and updating of an existing irrigation system).

On-going structural reforms in agricultural land policy include promoting increased transparency in the distribution of State-owned land (leases and sales) and implementing land consolidation projects. In parallel, further structural reforms relate to strengthening agricultural associations with a specific focus on cooperatives, strengthening the provision of quality, professional farm advisory services, as well as training and transfer of knowledge. To illustrate, on 30 January 2020, the Agriculture Modernisation Project was approved and financed through a €46 million loan from the World Bank and a €4.3 million grant from the EU. This project is scheduled to last until 30 June 2025 and includes the (i) construction of two collection centres equipped for the safe storage, sorting and packaging of agricultural products, including with refrigerated facilities, (ii) establishment of the Agrofood Platform to facilitate the purchase, storage, sorting and marketing of agricultural products, (iii) implementation of a software solution for recording the total agricultural land in the Republic of North Macedonia and (iv) creation of an animal by-product processing centre.

Construction

Construction accounted for 5.4% and 5.5% GDP and 7.9%, 7.9% of total employment, in 2018 and 2019, respectively. During the period from 2015 through 2020, North Macedonia sought to achieve greater transparency and reduce costs and bureaucratic barriers in the construction sector. Partly as a result of this focus, the value of housing units built by private owners increased throughout this period. This increase was also due, in part, to reforms in State-owned undeveloped construction land management.

Supported by investment in public infrastructure, the construction sector has realised high growth in recent years, with investments in building highways and regional roads, as well as upgrading existing roads.

Among the most significant road construction projects currently underway are: (i) the construction of the new motorway from Kichevo to Ohrid on Corridor VIII (total length of 57 kilometres), (ii) upgrading and improvement of the road along Corridor VIII (approximately 23 kilometres from Kriva Palanka to Rankovce), the Local Roads Connectivity Project (including the rehabilitation, reconstruction and upgrading of local roads and streets in 80 municipalities and the City of Skopje with a total length of up to 450 kilometres), (iii) the National Roads Programme (construction of two new road sections: one from Shtip to Kocani and the other from Raec to Drenovo, with a total length of 28 kilometres, as well as the rehabilitation of 26 national roads), (iv) the construction of the Shtip – Radovish road section (new construction of approximately 60 kilometres and reconstruction of 18 kilometres), (v) the Kriva Palanka – Bulgarian Border Road Section (total length of 13 kilometres), which is being funded by an EBRD loan, and (vi) the implementation of the Western Balkans Trade and Transport Facilitation Project to facilitate deeper economic integration within the region. The Western Balkans Trade and Transport Facilitation Project is supported by the World Bank and aimed at fostering regional integration and facilitating trade and transportation.

In early 2018, construction began on the approximately 15-kilometre express road on the A1 national road, section Gradsko – Drenovois, financed by EU IPA funds. This project is in the process of being assigned to another contractor and is approximately 35% complete as of 31 December 2020. On-going construction of one part of the approximately 14-kilometre express road Shtip – Krupiste, started in April 2017 and is now complete

The construction of two new motorways from Demir Kapija to Smokvica on Corridor X (total length of 28.2 kilometres) and from Miladinovci (Skopje) to Shtip on National road A4 (total length of 47 kilometres), as well as the rehabilitation of selected national and regional roads totalling over 100 kilometres have been completed.

In 2016, construction of a 10.2-kilometre express road on national road A1, section Bridge over River Raec – Interchange Drenovo commenced, funded by an EBRD loan. This construction has been temporarily suspended due to termination of the contract. It is expected that the new contractor shall start construction activities in March 2021 and finish in two years. Construction of the other 14-kilometre express road Krupiste – Kocani is on-going, and construction of the approximately 23-kilometre express road KrivaPalanka – Rankovce is also on-going and is expected to be completed by the end of 2022. Construction of an approximately 23.5-kilometre express road on national road A1, section Shtip – Radovis, is being funded by an EBRD loan and is expected to be completed by the end of 2021.

In 2019 the Export-Import Bank of China provided additional financing for the on-going construction of the new motorway from Kicevo to Ohrid on Corridor VIII. The construction of the highway section Kicevo – Ohrid is expected to be finished by the end of 2021. See "*Overview of the Republic of North Macedonia—International Relations—Bilateral Initiatives—Export-Import Bank of China*".

The Government has expressed a strategic commitment to complete the East-West rail axis, also known as Corridor VIII, which would link transport flows from the Adriatic and Ionian Sea to those from the Black Sea.

Several critical infrastructure projects are currently underway in the rail sector. A loan of €17.6 million from the EBRD for the renewal of Rail Corridor X is being processed. For the third and last section from Nogaevci-Negotino (30 kilometres), construction works are expected to be completed by the end of 2021.

For rail Corridor 8, the contract for construction work on the Kumanovo-Beljakovce section (31 kilometres) was signed in 2013 between PE Macedonian for railway infrastructure Railways and the Republic of North Macedonia as employer and contractor. The original timeframe ending in September 2016 was not achieved. An extension was granted and construction is on-going. The EBRD loan agreement financing this construction was signed in 2012 (amended in 2015, 2018 and 2019) in an amount of €46.4 million. The funds for the design work and supervision services were secured through WBIF in an amount of €4.2 million and €1.6 million from the EBRD's Loan, totalling €5.8 million. In July 2020, the works contract was terminated by the Republic as employer. For the Beljakovce-KrivaPalanka section (34 kilometres), design work has been completed. This project has experienced two cancellations of the works contractor selection processes. The EBRD Loan Agreement financing the second section was signed in 2014 in an amount of €145.0 million. The funds for the design work and supervision services were secured through WBIF in an amount of €6.0. million. Additionally, a WBIF investment grant of €68.6 million was secured and will lower the EBRD loan total by that amount. In December 2018, a grant agreement was signed with the EBRD in order to utilise the €68.6 million investment grant from the WBIF.

In January 2021, a new tender procedure for selection of the contractor was launched for Section 1-Kumanovo –Beljakovce as Lot 1, and Beljakovce-KrivaPalanka, as Lot 2. It is envisaged that a works contract will be signed between the employer (PE Macedonian for railway infrastructure Railways and the Republic of North Macedonia) and the selected contractor in the third quarter of 2021. The completion of both sections is envisaged to be within 36 months. For the KrivaPalanka to Deve Bair section (23.4 kilometre), financing has been provided in the amount of €60.7 million by the EU from the IPA, while the remaining funds will be secured through loans from the EBRD and the EIB. The IPA Application was submitted in March 2020 to the EUD through NIPAC for further processing and approval of the EC. Upon receiving comments from EUD in May 2020, the IPA application was amended. The finalized version was signed by PE for railway infrastructure, Ministry of Transport and Communications and the Secretariat for European Affairs (NIPAC). It was submitted to EUD and the EC on 21 January 2021. The tender documentation for construction and supervision is in the process of being prepared.

Communications

Communications accounted for approximately 2.79%, 2.62% and 2.70% of the GDP of North Macedonia in 2017, 2018, and 2019 respectively. According to data from the Agency for Electronic Communications (the "**AEC**") of North Macedonia, five out of 12 entities registered in the AEC's official records in the third quarter of 2020 provided publicly available telephone services on a public mobile communications network. These included: Makedonski Telekom AD Skopje, A1 Macedonia Skopje, Lycamobile – Skopje, Robi-Stip and Green-Prilep. The share of mobile operators on the mobile telephony market by number of active subscribers (as of 30 September 2020) indicates that A1 Macedonia had a market share of 50.7%, followed by Makedonski Telekom with 46.2%. Lycamobile started offering its services on the mobile market in the third quarter of 2016 and as of 30 September 2020 has a market share of 2%. Robi-Shtip started offering its services on the mobile market in the fourth quarter of 2018 and, as of 30 September 2020 and has a market share of 1.1%. Green-Prilep started offering its services on the mobile market in the third quarter of 2020 and has a market share of 0% The AEC's official records further indicate that 18 out of 19 entities registered with the AEC provided fixed network services in the third quarter of 2020.

A number of alternative operators/service providers are operating in the sector, with a market share of 46.5% in 2020, 46.1% in 2019, 44.5% in 2018 and 42.5% in 2017. In the third quarter of 2020, the market share of such alternative operators/service providers according to number of fixed lines was 46.5%.

Makedonski Telekom (SMP Operator) holds a share of 53.5% in the fixed network market, followed by A1 Macedonia with 38.3% (alternative operators/service providers), Robi (5.0%), Neotel (2.6%) and Infel Net Plus (0.6%).

Regulation of the Communications Sector

The alignment of North Macedonia with EC Directive 2016/1148 on network security and information systems ("**NIS Directive**") commenced in 2017 with a public debate on cyber security policies. This debate was held on 13 November 2017 and was chaired by both Minister of Defence Sekerinska and the Minister of Information Society and Administration Manchevski. In December 2017, an informal working group was established including representatives of the Ministry of Information Society and Administration, the Ministry of the Interior and the Ministry of Defence. In January 2019, the World Bank and the Global Centre for Cyber Security Capacities at the University of Oxford, with the support of the informal working group, conducted an assessment of cyber security capacities in North Macedonia. The assessment report was released in July 2018. In March 2018, a formal working group with representatives from Ministry of Information Society and Administration ("**MISA**"), the Ministry of Interior and the Ministry of Defence was established in order to develop a joint strategy in the field of cyber security. The working group produced the national cyber security strategy ("**National Cyber Security Strategy**") (adopted August 2018) and the accompanying action plan ("**Action Plan**") (adopted December 2018).

The National Cyber Security Council was established in November 2019 to coordinate and monitor the implementation of the National Cyber Security Strategy, as well as to define new strategic directions and make recommendations related to cyber security. The council includes the Ministers of Defence, Home Affairs and Information, Society and Administration. The first constitutive session of the Council was held on 2 January 2020, during which the Council tasked the inter-ministerial expert working group with reviewing the National Cyber Security Strategy and action plan by the end of February 2020. As a result of the review, an adjustment to the Action Plan is being drafted, taking into account the current institutional framework, revised timelines, and including activities that have already been accounted for in organisational budgets.

In line with the National Cyber Security Strategy and the Action plan, a new Law on Security of Network and Information Systems was drafted by MISA with the purpose of strengthening the national cyber security legislation and harmonisation with the NIS Directive. The draft text of the law was published in October 2019 and the public consultation period has been extended, facilitating input from all relevant stakeholders.

As part of its mission to coordinate and monitor the implementation of the National Cyber Security Strategy, in 2019, the national centre for response to computer incidents (the "**MKD-CIRT**") established a laboratory and a classroom with capacity for twenty participants, which is being fitted with equipment for malware analysis and digital forensics. These facilities are expected to be operational in the second half of 2020. The MKD-CIRT has applied to join the Forum on Incident Response Teams ("**FIRST**"), an international organisation of trusted computer response teams dedicated to preventing cyber security attacks. Additionally, in February 2020, MKD-CIRT's application for the FIRST fellowship programme supporting new cybersecurity teams in achieving membership status was accepted. To further international cooperation, in 2019 the MKD-CIRT organised the second international conference on cyber security, with the theme "CSIRTs and Cyber Resilience", as well as the second national computer security incident response coordination and communications workshop. In addition, in 2019 MISA conducted workshops in cooperation with the ITU and the UK government, with a focus on capacity building for cyber security and international cooperation. The MKD-CIRT organised the first national cybersecurity competition in March 2020. The competition was conducted exclusively online through a specialised platform, with the purpose of identifying and motivating the next generation of Macedonian cybersecurity professionals.

In line with the National Cyber Security Strategy and Action Plan, in 2020 the Government adopted the National Taxonomy for Cyber Incidents, and also instructed all public and state bodies to become constituents of the National Centre for Computer Incident Response MKD-CIRT and to report incidents. MKD-CIRT organized several webinars for its constituents on up-to-date topics: protection from phishing attacks, web application security and secure e-mail communication. Additionally, within the promotional campaign "Protect yourself on the Internet", video materials were produced, targeted to raise the awareness of all citizens about the risks of the Internet. The promotion takes place through social networks. In December 2020, MKD-CIRT organized the Third National Exercise for Coordination and Communication in Response to Computer Security Incidents, which consisted of two days of technical training, two days of management training and a final event that tested realistic scenarios through virtual platform.

Directive 2002/58/EC, known as the ePrivacy Directive of the European Parliament and of the Council of 12 January 2002, describes the ways in which personal communications are processed as well the security of electronic communications. This Directive was amended by Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009. These two directives have been fully transposed into the Electronic Communications Act of North Macedonia.

The Law on Electronic Communications provides for the adoption of a National Strategy for Development of Electronic Communications with Information Technologies ("**NSECIT**"), in line with the strategy for the development of a fully connected society in North Macedonia.

The amendments to the Law on Electronic Communications authorise the AEC to set the maximum prices of roaming services offered by mobile operators to citizens of countries that have signed an agreement with North Macedonia and that visit North Macedonia. In particular, roaming service prices cannot be higher than the prices of equivalent services in effect for other Member States of the EU.

In July 2019, the Assembly of the Republic of North Macedonia adopted the Amendments to the Law on Electronic Communications with the aim of establishing the National Broadband Competence Office (the "**BCO**"). The National BCO was established by the Minister of Information Society and Administration in October 2019.

According to the BCO Report, below is a comparison of the broadband development in the EU and in Republic of North Macedonia.

	EU	**MKD**	**MKD**
Connectivity indicators in DESI 2019	**(2019)**	**(First BCO Report March 2020)**	**(Second BCO Report September 2020**
1a1 Fixed broadband coverage	97%	97.87%	97.87%
1a2 Fixed broadband take-up	78%	70.91%	72.95%
1a1 4G coverage	96%	99.365%	99.38%
1b2 Mobile broadband take-up	100%	70.06%	64.83%
1b3 5G readiness	21%		22.2% (July 2020)
1c1 Fast broadband (NGA) coverage	86%	78.61%	78.61%

Connectivity indicators in DESI 2019	EU (2019)	MKD (First BCO Report March 2020)	MKD (Second BCO Report September 2020
1c2 Fast broadband take-up	41%	21.03%	27.43%
1d1 Ultrafast broadband coverage	60%	43.8%	43.8%
1d2 Ultrafast broadband take-up	26%	0.98%	1.74%
1e1 Broadband price index	64		

Source: http://bco.mioa.gov.mk/?page_id=228&lang=en

The Government of North Macedonia has supported the development and liberalisation of electronic communications services to ensure that such services are available at affordable prices in an effort to achieve mass broadband internet usage. Increased competition in the telecommunications sector is expected to establish the necessary infrastructure to provide for efficient, safe and timely delivery of high quality digital content and services.

On 22 September 2017, representatives of operators, universities and the public sector participated in a public hearing regarding the preparation of the National Operational Plan. MISA received a positive opinion from the EU Delegation in Skopje for having received TAIEX express assistance in connection with the preparation of the National Operational Plan. The National Broadband Plan (the "**NOBP**") was adopted by the Government on 1 April 2019 and aims to align the national policies on electronic communications with the strategic objectives of the EU 2010 Digital Agenda for Europe and the EU 2016 Strategy Towards a European Gigabit Society for 2025.

The NOBP sets infrastructure coverage goals including the construction of 5G infrastructure to cover all cities in North Macedonia with a continuous 5G signal by 2027, and for all public institutions to have symmetrical internet access with a speed of at least 1Gbps by 2029. The NOBP has also identified the construction of the National Transport Optical Network (the "**NTON**") and Next Generation Access ("**NGA**") infrastructure in white zones as a key measure. Construction, development, maintenance and management of NTON and NGA infrastructure in white zones falls within the purview of Public Enterprise Macedonian Broadcasting ("**PE MRD**") (in accordance with the Law on Establishment of PE MRD). Funding for construction of the NTON and NGA infrastructure in white zones will be secured by the Government from a World Bank loan.

In 2019, the AEC awarded two licenses for 5G testing in the 3.6 GHz band with a temporary validity of 12 months. One was awarded to A1 Makedonija and is valid until 14 July 2020 and the other was awarded to Makedonski Telekom and is valid until 30 October 2020. In accordance with the NOBP, on 5 February 2020, the AEC announced a public call for stakeholder opinion on the process of issuing 5G radio frequency authorisation. The deadline for stakeholder input was 20 April 2020. Over the course of 2020, the AEC prepared changes to National Frequency allocation Plan (this Plan should be adopted by the Government) and Plan for assignment and usage of radiofrequencies. When Government approves the Plan, AEC will publish an intention for public tender for auction of 5G frequency bands, taking into account stakeholder opinions and regulatory objectives.

In addition, in the first quarter of 2019, 96.4% of companies used computers in their business activities and 85.8% of companies with ten or more employees had fixed broadband connection to the Internet, while 55.6% of companies had a website. In terms of e-commerce, 3.6% of e-sales companies received orders via computer networks, and 3.4% of companies received orders for products or services via internet sales.

The Directive on cost reduction for next generation network development has been implemented in the Law on Electronic Communications. This information point provides data on the type, main technical properties, horizontal and vertical setup of underground and surface infrastructure objects and auxiliary installations, as well as data on the entities managing the above.

In February 2018, the Government of North Macedonia established a National Council for Information Technologies (the "**NCIT**"), in order to prepare and monitor the implementation of the National Long-Term ICT Strategy and other related strategic documents. The NCIT also reviews the technical specifications for public procurement of IT equipment and software in public sector institutions with values exceeding €20,000. The NCIT also acts as a coordinator and monitors the implemented activities of the national ICT strategy and proposes new strategic guidelines and recommendations related to the area of information technologies and cyber security.

In June 2018, the Government adopted a Decision on the establishment of a Digital Forum composed of 14 members, two of which are governmental representatives, while the rest are representatives of the civil sector, chambers of commerce and universities. On 13 February 2019, a constituent session of the Digital Forum was held, where the President and Vice President were elected and various decisions were taking, including with regard to the objectives of the Digital Forum. These objectives are to coordinate the development an information society for the public and private sectors, as well as civil society and the academic community.

In 2018, the Macedonian Academic Research Network ("**MARnet**") upgraded its infrastructure and implemented a platform that can support speeds between universities in the Republic of North Macedonia to 320Gbit/s and will provide a network development field for the next 15 years, MARnet launched a 10Gbit/s connection between UKIM and MARnet's data centre in Skopje. MARnet is already working on project realisation for trans-Balkan interconnection of academic networks, whereby academic networks can exchange equipment and optical fibres and to launch a single optical Balkan network. MARnet's current projects include developing the national infrastructure for the academic and research network and developing the metropolitan area network in major university cities in North Macedonia, with ongoing projects in Bitola and Prilep, as well as plans for Tetovo, Ohrid and Shtip.

An agreement with the World Bank was reached in February 2021 to increase their funding of a project to enhance North Macedonia's broadband connectivity. The increased amount of funding is expected to be approximately €37 million. This is additional to the €70 million funding agreement which was reached previously in 2020, however some of this funding was partially redirected to combat the economic impact of COVID-19.

Tourism

An allocation of €7.5 million has been reallocated to support the tourism sector in 2020.

The COVID-19 crisis has had unprecedented effects on jobs and businesses in the tourism sector. Tourism was one of the first sectors to be deeply impacted by the COVID-19 pandemic, as measures introduced to contain the virus led to a near-complete cessation of international travel. The sector is also at risk of being among one of the last to recover, with the ongoing travel restrictions and the global recession.

The tourism sector (including the hotel and restaurant sectors) accounted for a small proportion (approximately 1.7%) of GDP in 2019 which had increased by 2.5% in real terms in 2019. Over 707,000 foreign visitors came to North Macedonia in 2019, representing an increase of 5.1% compared to 2018. Between 2015 and 2019, the number of foreign tourists per year in North Macedonia increased by approximately 9.5%, compared to the worldwide average of 5.0%. The number of nights spent by foreign tourists in North Macedonia in 2019 increased by 7.1%. Between 2018 and 2019, the Government believes that tourists from EU countries accounted for approximately half of the total number of foreign tourists.

The number of foreign tourists who visited North Macedonia in 2020 decreased by 84.4% year-on-year to 118,206 due to the COVID-19 pandemic. The number of nights spent by foreign tourists in North Macedonia fell to 252,930 in 2020, a drop of 84% year-on-year. Domestic tourists numbered 349,308 in 2020, down 18.3%, and they spent 1.44 million nights in tourist facilities, down 14.2% compared with 2019.

The Government measures to support the sector include funding a payment card for North Macedonian citizens to be used towards domestic tourism. This scheme is available to citizens with monthly incomes less than 15,000 denars. Qualifying citizens received a voucher of 6,000 denars which can be used for reservations in the touristic capacities around the country. These vouchers were valid until the end of 2020. Approximately 100,000 citizens have received these cards and a total amount of €16 million has been put towards the scheme by the Government. In the fifth package of measures announced on 17 February 2021, the Government extended the domestic tourism and hospitality voucher scheme.

The Government has also established a coordinating body (the "**Coordinating Body**") to prevent possible damages in the tourism industry due to COVID-19, which is composed of 12 members from the five chambers of economy, tourism associations, APST, and representatives from the Ministry of Economy (ME). The coordinating body aims to propose measures to deal with the crisis successfully.

The Ministry of Economy has provided funds for direct support to the tourism sector. This includes wage support of MKD 21,776 for tour guides, reimbursing tourism taxes paid by operators in 2019, up to an amount of €2 million, and grants have been made available ranging from €3,000 to €7,000 for all tour agencies depending on the number of employees. The Government has also made available interest free loans to companies in the tourist sector to help with their liquidity needs during the COVID-19 pandemic.

In 2015, the Ministry of Economy drafted a National Strategy for Tourism Development 2016-2021, and adopted an Action Plan for the 2016-2023 period. The objectives of this plan are to further develop tourism in the Republic of North Macedonia by promoting of North Macedonia as a tourist destination, developing a brand strategy for North Macedonia; developing new tourism focused projects for North Macedonia, such as the Local and Regional Competitiveness Project (2016-2020), with financing in the amount of €21 million from the IPA II and aimed at providing investment funding and capacity building to support growth of the tourism sector; establishment of a Tourism Development Fund, which has a budget of approximately €12 million and establishing regional destination management organisations.

The Agency for Promotion and Development of Tourism works, on an international scale, to promote resources and facilities linked to tourism in the Republic of North Macedonia. The Government has specified the following strategic tasks for the development of the tourism, hospitality and restaurant industries:

- the expansion of accommodation capacity and tourism infrastructure, including resorts and four- and five-star hotels;
- the improvement of the quality of service by implementing security standards stipulated by the World Tourism Organisation and stimulating investments in tourism;
- strong support for the promotion of tourism in order to make North Macedonia an internationally recognisable tourist destination;
- support for the Agency for Promotion and Development of Tourism;
- the promotion of sustainable development;
- the protection of the natural environment and tourist destinations;
- the improvement of tourist areas by investing in infrastructure, signalisation and access to tourist attractions; and

- the development of new types of tourism packages, including rural, cultural, health and corporate conference tourism.

Public Investments

The Government of North Macedonia prioritises public investment as a critical part of developing its fiscal policy. Between 2018 and 2020, capital projects financed from the budget of North Macedonia have played a key role in implementing structural reforms in line with EU recommendations. The table below reflects total realised central Government budget investments for the periods indicated.

	2018	2019	2020
		(€ millions)	
Central Budget (own sources, grants and loans).............	198	290	262

Source: Ministry of Finance

The Supplementary 2020 Budget provides MKD 19.5 billion (€318 million) for total capital investment in 2020. These planned capital expenditures were lower than originally anticipated in the 2020 Budget due to the implementation of Government measures aimed at mitigating the negative economic impact of the COVID-19 pandemic. The Government expects that a portion of the funding necessary to sustain this level of capital expenditure will be provided by international financial institutions and bilateral creditors. For further information about outstanding debt in relation to IFIs. See "*Indebtedness—External General Government Debt—International Financial Institutions*". As at the end of March 2020, approximately 10.3% of this capital investment had been realised.

Major capital expenditures contemplated for 2021 include road and railway infrastructure (13.9% of total capital expenditure), building of energy and utilities infrastructures (22% of total capital expenditure), as well as capital investments aimed at improving education (10.4% of total capital expenditure), the health system (3.9% of total capital expenditure), agriculture (12.9% of total capital expenditure) and defence and public order (18.3% of total capital expenditure). The remaining 18.4% of budgeted capital expenditure will be invested in, among other sectors, IT infrastructure and the judiciary system (including the construction and reconstruction of prisons).

In the public health sector, the Government expects to benefit from foreign support to upgrade technology and improve health care services. Similarly, it expects to use foreign funding to develop physical education programmes in primary and secondary schools. Foreign funds are also expected to help shape housing expenditure, with funds allocated to low income housing. Social spending, supported by foreign investment, will also be invested to upgrade prison facilities and improve rehabilitation programmes.

In the medium term, public enterprise debt is expected to increase as a result of government projects in the energy sector and improvement initiatives for road and rail infrastructure. While the debt of public enterprises in relation to GDP is expected to increase moderately, the Government aims to keep the overall indebtedness at sustainable levels.

Informal Economy

The 2020 IMF Report on North Macedonia states that the share of the informal economy was estimated to be more than a third of total output in 2016. According to this report, the economic costs of the informal sector are substantial. While the informal economy can contribute to economic growth by creating opportunities that are not available in the formal economy, it creates inefficiencies and reduces the economy's long-term growth potential. It is a key obstacle that disincentivises businesses to invest in human capital formation and technological innovation. According to data from the State Statistical Office, the share of informally employed persons out of the total number of employed persons in 2019 amounted to 16.1%, representing a decrease of 19.4% compared to 2015 (19.9%). In 2019, amongst the informally employed, men represented 10.8% of this workforce and women 5.2%, a decrease of 14.4% for men (12.7% in 2015) and 28.2% for women (7.3% in 2015), as compared to 2015.

Government policies have sought to limit the size of the informal economy by providing incentives for individuals to undertake work in the recorded, or *official*, sector, such as reductions in income tax rates and social contributions rates and a reduction in unnecessary business regulation, which previously served as a barrier to the registration of new or family-run businesses.

At the beginning of 2018, the Government adopted the first medium-term Strategy for Formalization of the Informal Economy (2018–2022). The development of this strategy was supported by the International Labour Organization (the "**ILO**") and it was prepared with the active participation of many relevant institutions and social partners. Among other things, the strategy presented the measures and activities being taken to tackle the informal economy, the most significant upcoming challenges in this area, and the strategic objectives and guidelines for further action. The strategy aims to reduce the number of informally employed persons (both in informal and formal businesses, as well as within households) and to reduce the share of unregistered business entities and informal activities within the formal economy. The strategic goals are to improve the process of identifying, measuring and monitoring activities in the informal sectors; establishing a better business environment to facilitate the establishment, growth and development of companies; stimulating and supporting the formalisation of informal economic activities and strengthening the tax morale and lowering tolerance towards the informal economy. To implement this strategy, the Action Plan for Formalization of the Informal Economy (2018–2020) was adopted in August 2018.

Employment and wages

While general unemployment in North Macedonia has historically been high, in recent years there has been a gradual increase in the number of employees in the workforce and a decrease in the unemployment rate. The official employment rate (the ratio of employed workers to th*e total* working age population) in 2018 was 45.1%, reaching 47.3% in 2019, the highest employment rate in the Republic of North Macedonia since employment statistics were recorded. The unemployment rate was 22.4% and 20.7% in 2017 and 2018, respectively, and 17.3% in 2019, respectively.

Positive trends on the labour market continued in the first quarter of 2020, followed by a moderate deterioration caused by the COVID-19 pandemic. According to the Labour Force Survey, the average number of employed persons in the first nine months in 2020 increased slightly by 0.3% compared to the same period in 2019. Employment mostly increased in the ICT sector, financial services, trade, health and social protection but dropped in the agriculture sector and utilities sector, while the construction sector, food and accommodation services and transportation experienced a small decline. The employment rate in the third quarter of 2020 amounted to 46.6%, 0.8 percentage points lower compared to the third quarter in 2019. The unemployment rate, following an increase in the second quarter of 2020, declined to 16.5% in the third quarter, which was 0.6 percentage points lower than the third quarter in 2019.

The average monthly net wages in the period between January to November 2020 was 8% higher in nominal terms, and 6.9% in real terms, compared to 2019. The strong wage growth in this period reflects the increases to the minimum wage which was made at the end of 2019 and the Government's financial support measures to employers who had increased wages up to a certain amount. Wage growth was also driven by general increases made to public sector wages in September 2019, as well as a specific further increase to wages for those working in the education and health sectors. Fiscal measures to aid employers hit by the economic crisis as a result of COVID included payment of wages for employees helped to mitigate the downward trend in wage growth during the second quarter.

Although youth unemployment in North Macedonia has historically been high, it has also been decreasing in recent years. The average youth unemployment rate in the period 2015-2019 was 44.6%. The average youth unemployment rate in the first nine months of 2020 was 34.5%, which is 3.5% lower compared to the first nine months of 2019 where the equivalent figure was 35.7%. This decrease was a result of the successful implementation of several measures aimed at reducing youth unemployment. The Government attributes this trend partially to its initiatives focused on improving education, including obligatory education through the age of 18 (including proficiency in foreign languages), entrepreneurship training and technical skills development.

In order to promote youth employment, the Government offers grants and subsidies of wages for newly employed youth for a period of up to 12 months. Further, the Government is offering loans under favourable conditions for unemployed youth to start their own business.

The following table sets forth labour market data for the periods indicated:

	Year ended 31 December					Nine months ended 30 September	
Labour market	**2015**	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
Working age population(ages 15-80)	1,676,659	1,678,890	1,679,935	1,682,702	1,684,820	1,684,614	1,685,629
Employed.....................	705,991	723,550	740,648	759,054	797,651	794,414	796,694
Unemployed	248,933	225,049	213,564	198,569	166,363	168,070	157.275
Employment rate (%)....	42.1	43.1	44.1	45.1	47.3	47.2	47.3
Unemployment rate (%)	26.1	23.7	22.4	20.7	17.3	17.5	16.5
Youth unemployment rate (%)........................	47.3	48.2	46.7	45.4	35.6	35.7	34.5
Employment by ownership:							
Private..........................	547,797	555,894	570,764	586,364	614,658	614,203	608,626
Other(1).........................	158,194	167,657	169,884	172,690	182,993	180,212	188,068

Source: State Statistical Office, Labour Force Survey, ILO Methodology

Note:

(1) Includes social, collective and state employment.

The labour force (including both employed and unemployed people) amounted to 57.2% of the working age population in 2019, representing an increase of 0.3% as compared to 2018. The labour force (including both employed and unemployed people) was 56.6% of the working age population in the first nine months of 2020, which is 1% lower compared to first nine months of 2019 where the equivalent figure was 57.2%.

Employment by Sector

The following table sets forth the percentage breakdown of average registered employment by sector for the periods indicated:

	Year ended 31 December					Nine months ended 30 September	
Sectors of Activity	**2015**	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
				(%)			
Agriculture, forestry and fishing	17.9	16.6	16.2	15.7	13.9	14.3	12.1
Mining and quarrying	0.9	0.9	0.9	0.9	0.8	0.8	0.9
Manufacturing	19.4	19.0	19.3	19.9	19.8	19.7	19.8
Electricity, gas, steam and air conditioning supply	1.4	1.4	1.4	1.4	1.3	1.4	1.2
Water supply, sewerage, waste management and remediation activities	1.7	1.8	1.7	1.9	2.2	2.2	1.8
Construction	7.1	7.2	7.2	7.4	7.0	7.2	6.9
Wholesale and retail trade, repair of motor vehicles, motorcycles	13.8	14.4	14.7	14.3	14.1	14.1	14.7
Transportation and storage	5.1	5.0	5.1	5.2	5.6	5.4	5.3
Accommodation and food service activities	3.8	3.5	3.9	4.1	4.3	4.5	4.4
Information and communication	2.1	1.9	1.8	1.7	1.9	1.8	2.4
Financial and insurance activities	1.4	1.5	1.5	1.1	1.3	1.3	1.6
Real estate activities	0.2	0.2	0.2	–(1)	0.3	–(1)	0.2
Professional, scientific and technical activities	1.7	1.9	1.8	2.3	2.3	2.4	2.3
Administrative and support service activities	1.7	2.0	1.9	1.9	2.6	2.5	2.6
Public administration and defence, compulsory social security	7.3	7.5	7.2	7.0	6.7	6.6	6.8
Education	5.8	5.9	5.9	5.9	5.8	5.7	6.2
Human health and social work activities	5.2	5.4	5.5	5.6	5.7	5.6	6.2
Arts, entertainment and recreation	1.6	1.7	1.8	1.6	2.2	2.2	2.3
Other service activities	1.7	1.9	1.7	1.7	1.9	1.8	1.9

Sectors of Activity	Year ended 31 December 2015	2016	2017	2018	2019	Nine months ended 30 September 2019	2020
				(%)			
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	0.2	0.1	0.1	–(1)	0.1	–(1)	–(1)
Activities of exterritorial organisations and bodies	0.1	0.1	0.1	0.2	0.2	–(1)	–(1)
Total............................	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Percentages calculated by the Ministry of Finance, based on State Statistical Office data, LFS

From 2015 to 2019, the number of employed persons in the private sector increased from 547,797 in 2015 to 614,658 in 2019, reflecting an increase of 12.2%. However, during the first nine months of 2020 the number of people employed in the private sector decreased to 608,626, a decrease of 1% since 31 December 2019. The number of employed persons in other sectors (including joint private and state ownership, collective or state ownership) increased by 15.7% from 2015 to 2019, from 158,194 persons in 2015 to 182,993 in 2019. During the first nine months of 2020, the number of employed persons in other sectors (including joint private and state ownership) increased to 188,068, an increase of 2.8% since 31 December 2019.

Amendments to the Law on Employment and insurance in case of unemployment in 2012 (the "**Act**") effected changes in the recording of administrative unemployment. This Act was the basis for establishing and maintaining two records with the Employment Service Agency, one recording active unemployed persons (who are actively seeking for jobs) and the other recording passive unemployed persons (who register as being unemployed, but are not actively seeking employment). Active and passive employment figures, while used for administrative purposes, are not related to the unemployment figures calculated by the State Statistical Office with the Labour Force Survey.

In support of further labour market reform, education has been identified as a key component to improving the business climate in North Macedonia. The Government adopted the Operational Plan for Active Employment Programmes and Measures and Labour Market Services in December 2019, with measures including: a programme for self-employment, a programme to support the formalisation of existing businesses, training and qualification according to labour market needs (in some of the more rural areas training of the workforce may be particularly necessary), subsidies for the employment of specific groups and internships for youth entering the labour market. Such initiatives include the development of programmes to increase youth employment, in an effort to better prepare youth for entrance to the labour market later in life.

Average Monthly Wages

Wages in the private sector in North Macedonia are determined at an enterprise level, subject to any limits set in collective bargaining agreements. Collective bargaining agreements are applicable to certain sectors of the economy but only to enterprises which are members of the collective organisations. Labour unions, employers and the Government of North Macedonia agreed to set a national minimum wage, which was instituted in 2012. The minimum wage was increased in 2017, 2018 and 2019, to MKD 12,000, MKD 12,165 and MKD 14,500 (in net amount), respectively, and is subject to annual revision based on average wage growth, inflation and real

GDP growth. In accordance with the Law on Minimum Wages, the gross minimum monthly wage was raised to MKD 21,776 in April 2020 by the Ministry of Labour and Social Policy. The average monthly wage for the first nine months of 2020 was MKD 26,935 (in net amount), an increase of 6.8% from 2019.

The Government sets the wages in the public sector as prescribed by the Law on Administrative Servants. Wage adjustments in this sector are decided by the Government after consultation with the unions and employers' organisations and in accordance with the Law on Salary Payments and the annual budget.

The following table sets out information on average monthly wages for the periods indicated:

	Year ended 31 December					Eleven months ended 30 November
Wages	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Average monthly gross wages in MKD	32,173	32,822	33,688	35,625	37,446	40,417
Gross wages, nominal annual growth (%)	2.7	2.0	2.6	5.7	5.1	8.6
Gross wages, real annual growth (%)	3.0	2.2	1.2	4.2	4.3	7.4
Average net wages in MKD	21,906	22,342	22,928	24,276	25,213	27,082
Net wages, nominal annual growth (%)	2.4	2.0	2.6	5.9	3.9	8.0
Net wages, real annual/period growth (%)	2.7	2.2	1.2	4.4	3.1	6.9

Pensions

Pension and disability insurance in the Republic of North Macedonia is regulated by the Law on Pension and Disability Insurance, the Law on Mandatory Fully Funded Pension Insurance, the Law on Voluntary Fully Funded Pension Insurance and the Law on Pension Payment and Pension Benefits from the Fully Funded Pension Insurance.

Pension system reform commenced in January 2006, introducing a three-pillar pension system (mandatory first and second pillars and a voluntary third pillar). The basic objectives of the reforms were to ensure both short- and long-term solvency of the Pension and Disability Insurance Fund of North Macedonia (the "**PDF**"), maximise benefits and minimise risk for pensioners, guarantee pension security for all generations and strengthen public confidence in the pension system.

Under this system, a portion of each worker's salary (which was previously deposited in the State pension fund) is paid into the first State-supported pay-as-you-go ("**PAYG**") pillar and a privately managed pension fund chosen by the worker ("**second pillar**"). This system is available for both public and private sector employees.

The second pillar of the pension system comprises a defined contribution system where specialised pension companies manage mandatory pension funds ("**open-ended investment funds**"). The Law on Pension Payment and Pension Benefits from the Fully Funded Pension Insurance was adopted in January 2012 and took effect on 1 March 2014. The Law on Mandatory Fully Funded Pension Insurance sets upper limits on the fees that can be charged by private pension companies. There are two such fees, a "**Contribution Fee**" which is set as a percentage of the worker's monthly contribution, and a "**Fee from Assets**", which is charged based on the size of the assets that the pension company manages. The Agency for Supervision of Fully Funded Pension Insurance (the "**Pension Agency**"), established in 2004 as a regulator and supervisor of pension companies and pension funds, charges a monthly fee from the pension companies in the amount of 0.8% of the total amount of paid contributions in the previous month. The Pension Agency proposes the maximum levels within the upper limit set by law of the fee charged from the pension companies to the Assembly for approval each year. The chart below outlines the statutory maximum that private pension companies may charge for the year indicated:

Year	Contribution Fee	Fee from Assets
2015	3.25%	0.040%
2016	3.00%	0.040%
2017	2.75%	0.035%
2018	2.50%	0.035%
2019	2.25%	0.030%
2020	2.00%	0.030%
2021	2.00%	0.030%
2022	2.00%	0.030%
2023	2.00%	0.030%

Source: Agency for Supervision of Fully Funded Pension Insurance http://mapas.mk/wbstorage/files/Second%20Pillar%20Fees_2018.pdf

Fees can be set based on an analysis of estimated revenues, costs and profits of a hypothetical company that manages a mandatory pension fund, taking into account regulatory and legal changes, as well as other factors. The analysis estimates the reasonable maximum amount of fees that will be sufficient during the 10-year period of operation to cover operating costs of the company, to pay the fees of the participating institutions and to allow company founders to make a reasonable rate of return on their investment and are assessed on this long-term basis given that approvals for mandatory pension funds have unlimited duration. Contributions Fees have gradually reduced to 2.0%, while the Fee from Assets has gradually decreased to 0.03%, as illustrated in the chart above. The Contribution Fee and Fee from Assets are expected to remain at this level for the foreseeable future.

Three financial institutions have been licensed to establish private pension funds relating to the second pillar of the pension system

In 2020, pension contributions represent 18.8% of gross salary, an increase from 18.4% in 2019 and 18.0% in 2018. Members of the mandatory private pension fund are required to contribute 6% of their mandatory pension contributions to a private fund (second pillar) and 12.8% to the existing state pension fund (first pillar). Members of mandatory pension funds include insured persons who first acquired mandatory pension and disability insurance after 1 January 2019 and were younger than 40 years of age at the time; insured, employed persons who first acquired compulsory pension and disability insurance after 1 January 2003 and were born after 1 January 1967; and insured, employed persons who first acquired compulsory pension and disability insurance before 1 January 2003, who voluntarily acquired compulsory fully funded pension insurance and who were born after 1 January 1967. In December 2020, there were 529,983 members in the mandatory private pension fund with net assets totalling €1.5 billion.

In 2009, a third pillar was introduced, voluntary pension insurance, with the same structure as the second pillar, where pension companies manage voluntary pension funds (open-ended investment funds) and where the investment limits are stipulated by law.

The objectives of the voluntary pension insurance introduced by the third pillar are to provide higher income upon retirement to the persons covered by the first and second pillar, to provide retirement benefits to persons not covered by the mandatory pension insurance, and to provide pre-conditions for organising and financing occupational pension plans. In December 2020, there were 26,016 members in the voluntary private pension fund with net assets totalling €37 million.

The Law on Pension Payment and Pension Benefits from the Fully Funded Pension Insurance regulates the pension payments from the second pillar, pension compensation from the third pillar and the institutions that are to be included in the payment of the pensions. The law stipulates that the pension companies provide the payment of programmed withdrawals and that the insurance companies provide annuity payments in addition to products within the insurance market.

After the implementation of reforms to the pension system in Republic of North Macedonia and the introduction of fully funded pension insurance, it was determined that further reforms and revisions were necessary. In order to address these matters, in June 2017 the Government established a Council for Monitoring the Situation in the Pension System, a body comprised of the Minister of Labour and Social Policy, the Minister of Finance, the Deputy Prime Minister of Government of the Republic of North Macedonia in charge of economic affairs, the Minister of Economy, the Minister in charge of foreign investments, the President of the Council of Experts of the Agency for Supervision of Fully Funded Pension Insurance (MAPAS), the Director of the Pension and Disability Insurance Fund of North Macedonia, the first general managers of the two pension companies and, if necessary, experts (university professors and foreign experts engaged by the World Bank, the EC and the International Labour Organization). The Council has the authority to consider issues related to the sustainability of the pension system, to monitor the implementation of the pension system reform, initiate measures for improving the conditions of fully funded pension insurance and ensuring the sustainability of the pension system in the long term.

At the beginning of 2018, the Council proposed PDIF stabilisation measures to increase the contribution rate and change the pension index. An initial solution proposed in 2017 aimed to prevent increases in the State pension fund deficit by preventing further adjustment of pensions in nominal amount or as an additional percentage. The State pension fund deficit amounted to 3.1% of GDP in 2017, 2.9% of GDP in 2018 and 2.2% of GDP in 2019. As a result, pensions in 2017 were adjusted according to the provisions contained in the Law on Pensions and Disability Insurance, according to the following formula: 50% of the increase in wages and 50% of the increase in the cost of living, calculated twice per year.

The amendments to the Law on Pension and Disability Insurance ("Official Gazette of the Republic of Macedonia" No. 245/2018 and No.275/2019), the Law on Mandatory Fully Funded Pension insurance ("Official Gazette of the Republic of Macedonia" No. 245/2018) and the Law on Mandatory Social Insurance Contribution ("Official Gazette of the Republic of Macedonia" No. 247/18) address the fiscal sustainability of the pension system and the adequacy of multi pillar pensions. The pension policy measures aimed at ensuring fiscal sustainability while strengthening equity include the creation of more sustainable indexation of pensions and additional indexation when GDP growth is more than 4% or when average wages are increased more than 5% and minimum wages are increased more than 15%; and the harmonization and lowering of accrual rates; an increase of the contribution rate and transitioning Pillar 2 member above the age of 50 to the PAYG pillar.

In December 2020, there were 326,295 pensioners and 571,863 insured persons, of which 132,900 were employed by the public sector. The Central Budget allocation for pension expenditures was 8.2% in 2019 and 8.9% in 2020. In 2021 and 2022, it is expected that Central Budget allocation for pension expenditures will amount to 8.8% of GDP and 8.5% of GDP, respectively. The average gross minimum monthly wage for 2019 was MKD 18,066, an increase of 4.7% compared to 2018, and is subject to annual revision based on average wage growth, inflation and real GDP growth. In accordance with the Law on Minimum Wages, the gross minimum monthly wage was raised to MKD 21,776 in April 2020 by the Ministry of Labour and Social Policy. The average monthly pension in December 2020 amounted to MKD 15,483.

Under current legislation, retirement ages for men and women are 64 and 62, respectively. The amendments on the Law of Labour Relations, which came into effect in 2014, permit voluntary extension of the employment relationship from age 62 for women and 64 for men up to 67 for both women and men. If an employee elects this option, the employer is obliged to extend the employment contract up to the age for which the employee requests the extension. Employees continue to pay mandatory social insurance contributions during this time.

Labour

In June 2018, amendments to the Law on Labour Relations ("Official Gazette of the Republic of Macedonia" No. 120/18) were adopted. The amendments envisaged additional criteria in the case of termination of employment for business reasons. The amendments include protection for persons with disabilities, single parents and parents of special needs children who have their employment terminated for business reasons. Furthermore, if an employee is terminated for business reasons, the employer cannot employ another similarly qualified person for the same position for a period of two years. If the need arises for that position to be filled prior to the expiry of the two year period, the previously terminated person is given priority for filling the position. Additionally, the ban on discrimination relating to fixed-term employment was extended to ensure that it applied, not only to the period of employment, but also to all the rights and obligations arising therefrom.

In accordance with the recommendations of the European Committee of Social Rights of the Council of Europe, additional protection was provided for children under the age of 15 or children who have not completed compulsory education. Working hours are limited to two hours per day during which a child can perform activities that are regulated by law, with a maximum of 12 hours per week. During school holidays, children may not work for more than six hours per day and 30 hours per week. Under these conditions, an uninterrupted two-week vacation is also mandatory.

In line with the recommendations of the World Bank's *Doing Business 2018* Report, the severance pay in case of termination of an employment contract for business reasons is regulated, with the amount of severance pay being increased from 12.5% to 25% depending on the number of years of employment. Additionally, the minimum basic salary for a trainee increased from 40% to 70% of the basic salary for the position for which the trainee is being trained and the right to use annual leave for employees who work six days per week has been levelled with the annual leave for employees who work five days per week.

In order to comply with the new Law on Misdemeanours and Law on Inspection, the Law on Labour Relations was amended in November 2020.

As a result of consultations and agreements between the Government, trade unions and employer organisations, the Law on Minimum Wage in Macedonia was adopted in early 2012. This Law introduced regulation of the minimum wage and specified which authorities were in charge of its determination and publication.

Since its adoption, the Law on Minimum Wage in Macedonia has been amended several times. The purpose of the 2017 amendments was: to increase the minimum wage; to enable minimum wage level equalisation for all employees across all sectors and at the same time to provide financial support to employers for covering the costs of such payments over the first 12 months following adoption. The gross minimum monthly wage was set at MKD 17,130 (net equivalent MKD 12,000) in September 2017. In accordance with the Law on Minimum Wage, between July 2018 and March 2019, the gross minimum monthly wage was set at MKD 17,370, and was increased to MKD 17,943 per months between April and November 2019. In November 2019, the gross minimum monthly wage was increased to MKD 20,996 and in January 2020 was increased to MKD 21,107 due to changes in social contributions and tax exemptions that were applied from January 2020. The gross minimum monthly wage was raised to MKD 21,776 in April 2020 by the Ministry of Labour and Social Policy.[2]

The minimum wage has been gradually harmonised in accordance with the Law on Minimum Wage in the Republic of North Macedonia. See "—*Average Monthly Wages*".

Social Protection

The Law on Social Protection ("Official Gazette of the Republic of North Macedonia" No. 104/19; 146/2019; 275/2019; 302/2020 and 311/2020) was enacted in May 2019, and reformed the support system for the most vulnerable citizens of North Macedonia. The Law on Social Protection introduced several measures, including guaranteed minimum assistance of MKD 4,000 per month; stronger occupational training and employment programmes; availability of a child allowance and education allowance for children regularly attending classes in primary and secondary schools to assist with the cost of education; and an extension of the disability allowance.

The Law on Social Protection also provides for the promotion and development of various, flexible social services that would be home and community based, as well as the possibility for development of innovative and intervention-based social services. The law also enables the engagement of local self-government, citizens' associations, natural persons and the private sector in the provision of social services.

In May 2019, the Law on Social Security of the Elderly ("Official Gazette of the Republic of North Macedonia" No. 104/19) was adopted, providing for financial assistance of MKD 6,000 per month for persons aged 65 and over and who are materially deprived, in order to reduce the poverty among this category of citizens.

In response to the COVID-19 pandemic, in April 2020, the Government adopted a Decree with Force of Law amending the Decree with Force of Law for Application of the Law on Social Protection during a State of Emergency, which provided facilitated access to the right to guaranteed minimum assistance for persons whose employment was terminated during the pandemic, calculated from April to December 2020. Since the adoption of the decree until December 2020, the number of guaranteed minimum assistance beneficiaries has increased by 15%. According to the dynamics of submitted requests and the duration of the pandemic in the coming period, it is expected that about 5000 new households will be covered in 2021.

Health

The health care system in the Republic of North Macedonia comprises a wide network of institutions, from primary health care and specialist clinics to consulting and hospital institutions as well as university clinics and institutes.

The Ministry of Health of the Republic of North Macedonia sets and implements health policy, while the Health Insurance Fund (the "**HIF**") provides financing for the health system. Since 2007, the HIF has acted as a strategic purchaser, contracting with health providers and distributing financial resources according to previously negotiated global budgets.

Since 2009, citizens who were previously not covered by compulsory health insurance have been covered under the supplement to the Law on Health Insurance. Health insurance for citizens with incomes below a specific threshold, determined by the amount of minimum wage from the previous year, is financed by the Central Budget. As at 31 December 2019, 237,937 persons and their families were entitled to Government medical insurance free of charge.

Investment in the modernisation and improvement of the healthcare system has been underway for several years. Through the introduction of the Health Treasury Accounts in 2011, the HIF seeks to control the cost of public health facilities and better manage the liquidity of the system. A significant priority for the system is integrating health data with the electronic scheduling system "*Moj Termin*" as well as IT centralisation in the HIF. The majority of health related administrative procedures have become electronic, including requests for sick leave and maternity leave, requests for orthopaedic devices, the registration of insured persons, referrals, invoicing of services, the validation of insurance status and the registration of patients with general practitioners. This electronic integration has facilitated access to the healthcare system, automated the administrative processes, eliminated inefficient administration, and provided better control for supervisory authorities.

Other reforms have included the new Law on Voluntary Health Insurance, which seeks additional revenue streams in the health system. The Law on Medicines and Medical Devices has increased competition and decreased drug prices by regulating the price of medical products, facilitating parallel importation of medicines and medical devices and introducing reference pricing for prescription drugs. In addition, previously existing pharmacy quotas were eliminated, improving access to prescription medications covered by the HIF. Recently, significant health sector funding was re-allocated to increase salaries and recruitment of healthcare staff, with a view to retaining well-trained and qualified healthcare professionals.

Protocols for services, drugs and equipment have also contributed to improving services in the health care sector and have reduced costs by defining treatment protocols and thus reducing instances of unnecessary services and drugs. Investments are being made in the infrastructure of health care institutions, modern medical equipment and expert training of health care professionals in order to achieve better quality and lower priced methods of diagnosis and treatment. The implementation of a centralised procedure for the procurement of medications, devices and equipment has produced savings that are invested elsewhere in the health care system. Finally, the implementation of a process of accreditation and standardisation of health institutions is expected to strengthen quality and efficiency within the public health sector.

As a result of the COVID-19 pandemic, the Government has implemented a series of measures in an attempt to slow the spread of COVID-19, including closing major transit hubs, reducing public transportation, closing schools, requiring citizens to remain at home and practice social distancing, and closing borders to non-nationals, building modular hospitals in order to build capacities for more patients etc. Students will have online lectures until the end of the school year, except for the students in first, second and third grade who have attended school since the beginning of the school year. Further, on 17 March 2020, North Macedonia declared a state of emergency, which was later extended several times until 22 June 2020, to give the interim government the necessary powers to implement these measures. In the second half of November 2020, a state of crisis was declared in North Macedonia which lasted 30 days and was not extended any further

Environment

Environmental Agenda

Environmental policies in the Republic of North Macedonia are based on the goal of transitioning to a green circular economy, which is expected to generate growth and create new jobs by investing in and preserving natural capital. According to the European Green Deal and the green agenda for the Western Balkans,, the Government will create policies to improve the quality of life of citizens through climate neutral measures while also protecting natural habitats. The European Green Deal is a set of policy initiatives put forward by the EC in 2019 with the broad target of achieving carbon neutrality in the EU by 2050. The European Green Deal will work through a regulatory and legislative framework and will include measures aimed at reducing carbon emissions, implementing a circular economy action plan and increasing sustainability. Both the national and local governments are actively seeking to implement the measures defined in annual environmental programmes which are based on the fiscal national and local budgets.

Additionally, several national strategies and procedures have been put in place to protect biodiversity in North Macedonia. The National Strategy for Nature Protection 2017-2027 and the National Strategy for Biological Diversity 2018-2023 were adopted in March 2018. The Government has also declared part of the Osogovo Mountains as a protected area, the Shara Mountain as a national park and has declared a forest protection zone in Vodno. The Government has created the first full National Red List of Herpetophones (amphibians and reptiles) in North Macedonia and has prepared an assessment of 14 plant species that have international and national protection status. The government has also drafted a national priority list of flora taxons, which will be used as the basis for determination of the final Red List of Flora of the Republic of North Macedonia.

The percentage of protected areas in North Macedonia increased from 8.9% in 2019 to 10.8% in 2020, meeting targets set within the European Green Deal. For example, the Government declared that part of the Osogovo Mountains a protected area (Official Gazette of RSM no. 116/2020). Further the Government has prepared a draft-bill that if passed, will declare part of the Shar Mountain a national park. The Government has adopted the Management Plan for the Pelister National Park. The ministry of environment in cooperation with the United National Environment Programme and has prepared the Sixth National Report to the Convention on Biological Diversity.

Regulation

The Law on Environment contains the fundamental environmental protection principles and regulates environmental protection across all areas, including procedures for environmental impact assessments, access to environmental information and public participation in the decision-making process. The Law on Environment also regulates integrated pollution prevention and control through the issuance of integrated environmental permits. This forms the basis for the management of the environment and impacts all laws regulating the environment. In addition, the implementation and planning for alignment with EU law (i.e., the process of harmonising laws, rules and procedures) (the "**IPA project**") is a demanding task that requires careful planning and management on an on-going basis. See "*—Environmental Agenda*".

North Macedonia has made significant progress in its efforts to harmonise its environmental laws with the EU Acquis. Having commenced the process in 2002, reforms have touched on nearly all aspects of environmental regulation (including horizontal legislation, waste, air, soil, nature, noise, water, genetically modified organisms, chemicals, forestry and integrated pollution prevention and control). The government is also developing an environmental monitoring system and an environmental information system through the EU IPA project (2019-2021) by improving environmental data collection and management, as well as strengthening monitoring and reporting capacities.

North Macedonia continues to measure its achievements through Progress Monitoring Reports, which are generated with respect to relevant EU Environmental Directives, Regulations or Decisions. The reports contain a Summary Review of Transposition and Implementation for each environmental sector. They also contain a Detailed Analysis of Transposition regarding the implementation of each directive and regulation within each sector. The most recent Progress Monitoring Report was released in 2016.

In addition, as part of the IPA project, consultants will prepare Directive Specific Implementation Plans ("**DSIPs**") and such consultants to be selected pursuant to a tender procedure in cooperation with the Ministry of Environment and Physical Planning of North Macedonia. These plans will set out the actions required during the transitional period and will set a timetable for the completion of certain tasks, to assign responsibilities and to allocate resources. Certain completion timetables will require transition periods that will differ from those set in connection with the EU Acquis; these post-accession deadlines will need to be considered in detail. These DSIPs include for the air quality CAFÉ directive, the amended Protocol to Abate Acidification, Eutrophication and Ground-level Ozone (Gothenburg Protocol) and for directive (EU) 2015/2193 on the limitation of emissions of certain pollutants into the air from medium combustion plants. DSIPs will be also developed for the Waste Framework Directive; the Directive on Landfills and Directive 2000/53/EC of the European Parliament and of the Council of 18 September 2000 on end-of life vehicles.

Reform of water and waste management

The Government of North Macedonia is investing in and developing its water and waste management systems, with funding assistance from the EU IPA, bilateral assistance and domestic co-financing. Under the IPA II Sector Operational Programme on Environment and Climate Action (2014-2020), North Macedonia has access to a total of €114.3 million in available funds for major projects such as the construction of sewage networks in Skopje and Kicevo, waste water treatment plants in Bitola and Tetovo, and construction of integrated financially self-sustainable systems for waste management in the east and northeast regions of North Macedonia. In December 2019, North Macedonia signed a loan agreement with the EIB and EBRD to finance the construction of a wastewater treatment plant for the City of Skopje.

Some of the on-going projects include improvement of solid waste management in the east and northern regions of North Macedonia, where a regional approach to manging landfill and waste will commence in the first half of 2021 financed under IPA III.

In 2020, financing was provided for municipal waste management for the southeast, Vardar, southwest and Pelagonija regions by the EBRD.

The Government has prepared and continuously updates technical documentation with regard to the water supply of North Macedonia. Further investments are being and have been made towards rehabilitating the national water supply and extending the sewerage network, supported by fiscal national and central budget programmes and projects. These investments have also been supported by an EIB loan for water supply and waste water systems for North Macedonia (€50 million, 2010-2020), as well as a KfW credit line supported by grants from the Swiss Secretariat for Economic Affairs ("**SECO**") for municipality water supply and sewage systems in Gostivar, Kavadarci, Radovish and Gevgelija (€15.5 million, 2018-2020). Reforms in water management over the last two years have also enabled the Regulatory Commission of North Macedonia to adopt tariffs for water services in approximately 70% of municipalities. The ERC expects to achieve full implementation throughout North Macedonia during the course of 2020.

Furthermore, the Government has invested in river basin management, flood risk assessment and measures to improve the ecology of several of the bodies of water in North Macedonia.

Other environmental measures

These development measures are focused on, among other areas, promoting and encouraging for the sustainable use of natural resources, energy efficiency of public buildings, and utilising technical assistance for capacity building in the environmental sector. For example, the IPA Sector Operational Programme 2014 – 2020 includes capacity building objectives under Action 1 regarding the approximation of environmental and climate action legislation in priority areas, such as:

- Strengthening administrative capacity for the organisation and management of the approximation process and implementation of legislation in priority sectors;
- Improving project management capacities and capabilities;
- Establishing institutional systems and capabilities for accession negotiations;
- Establishment of structures for monitoring network and national environmental information system;
- Strengthening administrative capacity for enforcement of environment and climate action legislation at national and local level.

These activities related to technical assistance for capacity building will be delivered through service, twinning and supply contracts.

Additional air quality monitoring networks are being established through the cross-border cooperation programme “Greece-the former Yugoslav Republic of Macedonia 2014-2020”.

Climate Change

North Macedonia is also active in the area of climate change, is a party to the UN Framework Convention on Climate Change and adheres to EU climate change legislation requirements. To date, North Macedonia has ratified nearly all relevant global and regional environmental protection agreements. Further in line with, and with financial support from, the IPA project, a new Strategy for Environment and Climate Action is being developed with a view to establishing a strong and sustainable framework for coordinating national climate action and updating the legal framework of North Macedonia as it relates to climate change, to align with relevant EU directives. A Law on Climate Action, which includes the transposition of the EU Monitoring Mechanism Regulation 525/2013) is being drafted and is expected to be enacted in December 2021 (according to the Government’s working programme for 2021). Work on the aforementioned Long-term Climate Action Strategy started in March 2019, and a first draft is expected by June 2020. This strategy will take into account that EU integration comprises not just the transposition of EU legislation, but also required changes to current institutional arrangements as well as engaging human and financial resources sufficient to achieve the established objectives.

North Macedonia is a Non-Annex I party to the United Nations Framework Convention on Climate Change and, as such, may access financing from the Green Climate Fund (the “**GCF**”). Additionally, North Macedonia has completed the first preparatory phase for inclusion in the GCF. This initial phase included finalisation of the mechanisms for coordination and prioritisation of climate action and the receipt of proposals for climate action that would be financed by the GCF. Further, North Macedonia was the first contracting party to submit its draft National Energy and Climate Plan (“**NECP**”) in July 2020 that will span from 2021 – 2030. The targets under the NECP will be adopted in the first quarter of 2021.

The below are notable developments and initiatives relating to the environment:

- the National Energy Development Strategy was implemented in January 2020 and aims to facilitate the reduction of carbon emissions by 60% by 2040 (using the carbon emission levels of 1990 as a baseline) through the increased use of renewable energy sources and reduced dependence on coal;
- the integrated Energy and Climate Plan is in the preparation phase and will be the basis for revision of a nationally determined contribution to the Paris Agreement;
- the Clean Air Plan was introduced in 2019 to reduce air pollution from domestic heating, transport, industry, construction and waste;
- the National Waste Management Plan for the period 2019-2025 is expected to be adopted in mid-2020 and details (i) national targets and deadlines with regard to the reuse, recycling, recovery and disposal of waste, (ii) waste management approaches and the national legal waste management framework, (iii) the obligations of the state administration authorities for waste management and (iv) details regarding the national database on waste management and implementation of the waste management hierarchy, extended producer responsibility, import, export and transit of waste.
- the National Waste Management Plan for the period 2021-2031 is expected to be adopted in March 2021 and provides for (i) remediation measures for the non-compliant landfills, dumpsites and contaminated areas, (ii) management of different waste types (municipal waste, commercial and industrial waste, construction waste, hazardous waste, medical waste and sludge from wastewater treatment plants) and (iii) construction of landfills and special waste management programmes (including disposal of packaging, electrical and electronic equipment, and batteries and accumulators). The Environmental

Administration shall be responsible for monitoring the implementation of the plan and the Ministry of Environment and Physical Planning will be responsible for implementation of the plan;

- the first National Waste Prevention Plan was prepared in 2020 to cover the period 2021-2027 and is expected to be adopted after the new Law on Waste Management is adopted (expected end of March 2021). The National Waste Prevention Plan describes measures which will be taken to prevent the generation waste and to assess and forecast the applicability of existing and planned measures. The plan will identify appropriate quantitative and qualitative national targets for waste prevention, as well as indicators to assess progress in the implementation of measures to prevent the generation of waste. The national waste prevention targets will be identified in a way which accounts for the relationship between the quantity of waste generated and the economic development and impact on the environment. The Ministry of Environment and Physical Planning will be responsible for the implementation of the plan, while the Environmental Administration shall be in charge of monitoring its implementation.
- through projects supported by the EU, a new laws are being drafted which will reduce harmful industrial emissions, protect and conserve nature and biological, geological and landscape diversity. The projects are being implemented and the relevant laws are expected to be adopted at the end of June 2021, pursuant to the Government's working programme for 2021. There are currently two laws in the process of parliamentary adoption: (i) amending the law on the environment and (ii) amending the law on air quality.
- in 2019 and in line with the EU Acquis, the Ministry of Environment and Physical Planning prepared draft legislation regarding waste management and sustainability, setting national targets in line with EU recommendations. It is expected that this legislation will be adopted at the end of in the first quarter of 2021.
- the construction of a collector system for the City of Skopje began in 2018 and is in the final stage of implementation (EU IPA);
- in December 2019, a loan agreement was signed with the EIB and the EBRD for the construction of a waste water treatment plant for the City of Skopje; and
- in 2019, the Public Enterprise Collector System Skopje was established to improve the water collection system;
- on 6 November 2017, the Parliament adopted a new law on the ratification of the Paris Climate Agreement, announced in Official Gazette 161/2017; and
- a new Energy Law was adopted in early 2018 and the Energy Efficiency Law was adopted in early 2020, in which the provisions and obligations arising under the EU Third Energy Package, the Renewable Energy Sources Directive (new market-oriented support mechanisms) and the Energy Efficiency Directive were implemented.

Price liberalisation

Only a small number of goods and services, typically confined to the energy sector, the telecommunications sector and postal services, are under governmental pricing regulation. The prices in all three of these sectors in North Macedonia are regulated by independent regulatory bodies.

Privatisation

Most of the Republic's State-owned enterprises were privatised between 1995 and 2005. Following the termination of the Macedonian Privatisation Agency in 2005, its responsibilities were transferred to the Ministry of Economy, the Ministry of Finance, the Pension and Disability Insurance Fund (and the Public Housing

Enterprise. The Commission for privatisation and Government were tasked with approving each privatisation and the Ministry of the Economy was placed in charge of completing the privatisation of the remaining State-owned enterprises.

The finalisation of the sale of the residual Government or PDF owned shares in State owned enterprises remains to be completed, with the revenues to be paid into the PDF and put towards the State budget. The future status of the remaining State owned company “11 Oktomvri-Eurokompozit AD Prilep” (a special purpose and composite materials production company) should be completed by the end of 2021.

As of 10 November 2020, 58 enterprises were wholly or partially State owned. The 16 wholly State owned enterprises were Macedonian Post, Macedonian Bank for Development Promotion, ESM, MEPSO, MIA, Eurokompozit AD Prilep, TEC Negotino, Energetika AD Skopje, Agri lend Skopje, Drzavna lotarija na Makedonija, M-NAV AD Skopje, Macedonian Airport AD Skopje, Macedonian Rail-Transport AD Skopje, Public housing company AD Skopje, Water supply of Macedonia AD Skopje and Housing and real-estate company AD Skopje. Of the remaining 40 companies, the State held less than 10% of the issued share capital in 36 of them.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The following table sets forth the balance of payments of North Macedonia for the periods indicated.

	For the year ended 31 December						For the year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020(2)**
	(€million)						*(% GDP)*					
I. Current account.........	-177	-275	-105	-7	-372	-373	-2.0	-2.9	-1.0	-0.1	-3.3	-3.5
Goods and services........	-1,474	-1,472	-1,413	-1,365	-1,620	-1,377	-16.2	-15.2	-14.1	-12.7	-14.5	-12.8
Credit...............................	4,425	4,919	5,509	6,463	6,958	6,258	43.8	50.9	54.9	60.2	62.1	58.1
Debit................................	5,899	6,391	6,921	7,828	8,578	7,635	65.0	66.2	69.0	72.9	76.5	70.9
Goods..............................	-1,823	-1,813	-1,787	-1,736	-1,970	-1,809	-20.1	-18.8	-17.8	-16.2	-17.6	-16.8
Credit...............................	3,047	3,529	4,075	4,883	5,323	4,813	33.6	36.5	40.6	45.4	47.5	44.7
Debit(1)	4,870	5,342	5,862	6,619	7,293	6,621	53.7	55.3	58.4	61.6	65.1	61.5
Services, net.....................	349	341	375	371	350	432	3.8	3.5	3.7	3.5	3.1	4.0
Primary income, net........	-286	-384	-398	-451	-520	-412	-3.2	-4.0	-4.0	-4.2	-4.6	-3.8
Secondary income, net....	1,583	1,581	1,705	1,809	1,767	1,416	17.4	16.4	17.0	16.8	15.8	13.2
General government........	54	91	113	109	43	104	0.6	0.9	1.1	1.0	0.4	1.0
Financial corporations, nonfinancial corporations, households, and NPISHs	1,529	1,490	1,592	1,700	1,724	1,313	1,680.1	1,540.1	1,590.2	1,580.1	1,540.1	12.2
II. Capital account	7	11	18	12	8	9	0.1	0.2	0.1	0.2	0.1	0.1
Credit...............................	8	11	18	12	11	9	0.1	0.1	0.2	0.1	0.1	0.1
Debit................................	0	0	0	0	2	0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account).............	170	-265	-87	4	-364	-364	-1.9	-2.7	-0.9	0.0	-3.2	-3.4
III. Financial account ...	-172	-272	-97	13	-305	-333	-1.9	-2.8	-1.0	0.1	-2.7	-3.1
Direct investment, net...	-203	-317	-180	-604	-363	-206	-2.2	-3.3	-1.8	-5.6	-3.2	-1.9
Portfolio investment, net	-66	-429	19	-320	151	-284	-0.7	-4.4	0.2	-3.0	1.3	-2.6
Other investment, net ...	280	136	210	387	468	42	3.1	1.4	2.1	3.6	-4.2	0.4
Currency and deposits, net....................................	287	279	248	286	74	489	3.2	2.9	2.5	2.7	0.7	4.5
Loans, net........................	54	-106	37	-7	-225	-269	0.6	-1.1	0.4	-0.1	-2.0	-2.5
Trade credit and advances, net	-61	-37	-75	109	-317	-177	-0.7	-0.4	-0.7	1.0	-2.8	-1.6
Other accounts receivable/payable...........	0	0	0	0	0	-1	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights (Net incurrence of liabilities)	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve assets................	-183	338	-146	550	375	115	-2.0	3.5	-1.5	5.1	3.3	1.1
IV. Net errors and omissions........................	-2	-8	-10	8	59	30	0.0	-0.1	-0.1	0.1	0.5	0.3

Source: NBRNM.

Notes:

(1) Subject to revision.

(2) Estimated.

Current Account

North Macedonia has historically recorded a current account deficit, reflecting an excess of imports over exports. This has been partially offset by inflows of secondary income (current transfers classified as those involving financial corporations, non-financial corporations, households and NPISHs, or private transfers), including remittances from expatriate workers and foreign inflows related to hidden exports and the informal economy previously excluded from the banking system as these funds were not deposited with banks, and foreign inflows related to certain cross-border services, payments for which, usually in cash, are not captured in the statistical reporting system. See "*Macedonian Economy—Informal Economy*". Between 2017 and 2019, private transfers averaged 15.6% of GDP, reaching a historical high of €1.7 million (in nominal terms) in 2019. However, due to the impact of the COVID-19 pandemic and particularly due to lower remittances, the Government expects that private transfers will be significantly negatively affected. In 2015, the current account deficit increased to 2.0% of GDP, partly due to private transfers, which increased in nominal terms, but decreased in relative terms to 16.8% of GDP. The primary income deficit also widened, reflecting an improvement in the financial position of foreign companies. Nevertheless, private transfers remained at relatively high levels and were the most significant source covering the balance of goods and services. The deficit in this balance narrowed further in 2015. A key factor in the improvement of the trade balance in 2015 was the persistent decrease in global oil prices, which translated into a significantly lower energy deficit. The energy trade deficit decreased to 6.4% of GDP in 2015, compared to 8.5% of GDP in the previous year. The non-energy trade balance increased moderately, by 0.4% of GDP. New foreign-owned facilities continued to contribute to an improvement in the trade balance, through further increases in net export. The performance of the traditional export sector worsened as a result of unfavourable global circumstances, adversely affecting the non-energy trade deficit.

The current account deficit widened slightly in 2016, reaching 2.9% of GDP. This change was driven predominantly by a decline in net inflows of private transfers. In addition, political uncertainty resulted in a temporary increase in preferences for foreign currency, causing a decrease in overall private transfers in nominal terms, as well a decrease of their share in GDP, from 16.8% to 15.4% of GDP in 2015 and 2016, respectively. Despite this, private transfers were sufficient to finance the deficit of goods and services, which continued to narrow. The deficit in primary income increased in 2016, reaching 4.0% of GDP.

In 2017, the current account deficit accounted for 1.0% of GDP, representing a decrease of 1.8 p.p. of GDP compared to the current account deficit of 2.9% of GDP in 2016, primarily reflecting an improvement in the balance of goods and services. The narrowing of the trade balance was driven by a lower non-energy deficit (increase in net exports by new foreign-owned companies), whereas the energy deficit widened slightly. In addition, the surplus in private transfers increased to 15.9% of GDP compared to 15.4% in 2016.

In 2018, the current account registered a nearly balanced position, with a minor deficit of 0.1 p.p. of GDP. The main contributor was the continuous reduction in the negative trade balance, which narrowed to 16.2% of GDP. While the energy deficit continued to deteriorate due to high global oil prices, the non-energy trade balance declined as a result of the additional value added by new capacities in the economy supported by some of the traditional export sectors such as iron and steel. Private transfers also contributed to the reduction of the current account deficit, remaining at 15.9% of GDP for the year.

In 2019, the current account deficit increased by 3.3 p.p. of GDP to 3.3% of GDP. This deterioration mainly reflected an increase in the trade deficit, which registered a widening deficit in both the energy and non-energy trade balance, as well as a lower surplus in the services sector. The increase in non-energy trade was mainly due to lower net exports in some of the new foreign-owned companies in the automotive industry (due to a combination of lower exports and significantly higher raw material import prices), while the slight increase in the energy deficit reflected higher volumes of energy imports. The secondary income surplus narrowed, mostly due to lower official transfers, while private transfers continued to increase in nominal terms. The deficit in primary income increased by 4.6 p.p. of GDP, compared to 4.2 p.p. of GDP in 2018.

During 2020, the current account deficit increased by 0.14 p.p. of GDP to 3.5% of GDP, compared to 3.3% of GDP in 2019, in part due to a decline in private transfers. Private transfers declined by 3.2 p.p. of GDP on an annual basis in 2020 compared to 2019 due to the measures put in place in order to contain the spread of COVID-19 that significantly reduced the international movement of passengers. This subsequently resulted in a reduction of foreign exchange inflows of remittances in cash that translated into lower net purchased foreign currency cash on the foreign exchange market. The decline in private transfers, was to a large extent compensated by the narrowing of the deficit in goods and services and by smaller deficit in the primary account. The negative trade balance narrowed due to the drop in export of goods, reduced foreign demand and temporary disruption in the supply chains. There was a corresponding reduction in import demand along with lower import pressures due to lower domestic demand and a decline in international crude oil prices.

Financial Account

Direct investment comprised a large part of financial flows in 2015, amounting to 2.2% of GDP. Nevertheless, there was an overall net outflow in the financial account in 2015, mainly a result of the short-term components of the financial account, such as currency and deposits, which experienced net outflows. The Government obtained additional financing through the issuance of a Eurobond in October 2015, but these inflows were substantially offset by repayment obligations based on the PCL (including the amount due in 2016), as well as on the first Eurobond that had been issued in 2005.

In 2016, the financial account registered a surplus of 6.3% of GDP (excluding official reserves), mostly due to the issuance of a new Eurobond and the external borrowing of public enterprises for the financing of infrastructure projects. Net FDI also contributed to the financial account surplus with a net financial inflow of 3.3% of GDP, while currency and deposits continued to register a deficit on a net basis.

In 2017, the financial account deficit amounted to 0.5% of GDP (excluding official reserves) and had net outflows of 0.3% of GDP. With the absence of larger Government external net borrowing, the positive effects of FDI net inflows of 1.8% of GDP were offset by net outflows.

In 2018, the financial account surplus amounted to 5% of GDP (excluding official reserves) and net inflows amounted to 8.7% of GDP, primarily through direct investments and external government borrowing (primarily the 2018 Eurobond issuance). Part of the proceeds from the Eurobond issuance was used to prepay a portion of the 2015 Eurobond. In 2018, direct investments reached a historical high of 5.6% of GDP. Furthermore, the breakdown of direct investments in 2018 was favourable, given the larger share (3.7% of GDP) of equity and reinvested earnings opposed to debt instruments or intercompany lending, which also recorded net-inflows of 2% of GDP. The main source of net-outflows was the currency and deposits position. In 2018, net outflows amounted to 3.7% of GDP.

In 2019, the financial account surplus amounted to 6.1% of GDP. Net inflows were primarily comprised of trade credits, direct investment as well as private sector foreign financing (including the borrowing of public enterprises to finance infrastructure projects), with net inflows amounting to 8.1% of GDP in 2019. In 2019, FDI accounted for 3.2% of GDP, 2.4 p.p. lower than in 2018. Although the net inflows of FDI were lower in 2019 compared to 2018, they were slightly higher than the historical average of 2.8% of GDP since 2009. The net inflows of FDI in 2019 were mainly as a result of an increase in the share of net capital in total FDI (53% compared to 30.4% in the previous year) due to shifts in the equity share in the FDI structure. Net outflows are reported in two categories: portfolio investments and currency and deposits. The net outflows from portfolio investments are primarily comprised of lower net-liabilities of the Government on issued debt securities, which is due to investments by domestic banks in Government Eurobonds on the secondary market. The net outflows in currency and deposits come from the net outflows of other sectors, primarily households.

During 2020, the financial account surplus amounted to 4.2% of GDP. Net inflows were primarily comprised of government borrowing through the issuance of a Eurobond in June 2020. Net inflows amounted to 8.7% of GDP primarily from portfolio investments and loans (2.6% and 2.5% of GDP, respectively) and from direct investment and trade credits. Net outflows were reported in currency and deposits amounted to 4.5% of GDP, primarily from households.

The following table sets forth the components of the capital and financial account for the periods indicated.

	For the year ended 31 December					
	2015	2016	2017	2018	2019	2020[(1)]
			(% GDP)			
Financial account	0.1	-6.3	0.5	-5.0	-6.1	-4.2
Direct investment, net	-2.2	-3.3	-1.8	-5.6	-3.2	-1.9
Portfolio investment, net	-0.7	-4.4	0.2	-3.0	1.3	-2.6
Currency and deposits, net	3.2	2.9	2.5	2.7	0.7	4.5
Loans, net	0.6	-1.1	0.4	-0.1	-2.0	-2.5
Trade credit and advances, net	-0.7	-0.4	-0.7	1.0	-2.8	-1.6
Other accounts receivable/payable	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights (Net incurrence of liabilities)	0.0	0.0	0.0	0.0	0.0	0.0

Source: National Bank of the Republic of North Macedonia

Note:

(1) Estimated.

The following table sets forth the official international reserves of North Macedonia for the periods indicated.

	For the year 31 December				
	2016	2017	2018	2019	2020
			(€ millions)		
Gross foreign reserves	2,613.4	2,336.3	2,867.1	3,262.6	3,359.8
Gross foreign reserves indicators					
Gross foreign reserves, as p.p. of GDP	27.1	23.3	26.7	29.1	31.2
In months of the current year's imports[(1)]	4.9	4.1	4.4	4.6	5.4
Gross foreign reserves/Short-term debt[(2)]	1.7	1.3	1.4	1.6	1.5
Gross foreign reserves/ Short-term debt, with residual maturity	1.2	0.9	1.0	1.0	0.9

Source: NBRNM.

Notes:

(1) Projected current year imports of goods and services.

(2) Last available data for short-term debt and short-term debt, with residual maturity as of 30 September 2020.

Gross reserves declined by €174.7 million in 2015, in large part due to transactions by the Government, which used previously accumulated funds for debt servicing, including the prepayment of the PCL based debt, repayment of the 2005 Eurobond and covering of other financing needs. The depletion was also partly caused by minor fluctuations in the foreign exchange market, which occurred mostly in June and July 2015 when demand for foreign currency increased slightly in response to the domestic political turmoil and the Greek crisis.

In 2016, gross reserves increased by €351.7 million compared to the end of 2015. Several factors contributed to the foreign reserves growth, while net transactions on behalf of the Government made the largest contribution, primarily due to the issuance of the €450 million Eurobond and the increase in foreign currency deposits of commercial banks with the NBRNM. See "*Monetary and Financial System*". Despite political turmoil and the temporary loss of confidence, NBRNM interventions on the foreign exchange market also made a minor positive contribution.

In 2017, gross international reserves declined by €277.2 million, driven to a large extent by transactions on behalf of the Government, due, among other factors, to the high levels of repayment of external debt and interest including the first instalment of the PBG loan, the negative valuation effects and returns and the decrease in foreign currency deposits of commercial banks with the NBRNM.

In 2018, gross international reserves increased by €530.9 million due to favourable global economic conditions, the country's stable external position, a lower current account deficit and higher financial net inflows that financed the overall current account deficit and contributed to the accumulation of reserves. Of particular importance to the increase in gross international reserves were net purchases of foreign exchange on the FX market by the National Bank and the 2018 Eurobond issuance, representing net inflows from transactions on behalf of the Government. There was a further increase in gross international reserves in 2019 in an amount of €395.5 million. The main driver for this increase was a high level of net inflows resulting from the National Bank's intervention in the foreign exchange market.

In 2020, despite the negative economic effects of the COVID-19 pandemic, gross international reserves increased by €97.3 million. This increase was due to the Government's external borrowing in the form of bond issuances and loans from international organizations. The National Bank intervened on the foreign exchange markets with foreign currency selling that amounted to 4.4% of GDP and 80% of these sales were conducted during the period between March to July 2020.

Foreign trade

North Macedonia seeks to develop a strong export base diversified across a number of industries and allocated to higher value-added segments in order to reduce the trade deficit and to mitigate susceptibility to large external shocks. During the last six years, the country registered positive developments in the composition of export goods. From 2010, the country registered a shift in the structure of exports, with the entrance of foreign investors leading this shift towards higher value-added products (classified as "Machinery and transport equipment" and "Chemical materials and products"), which together accounted for 57.2% of total exports in 2019. The share of metals and textiles exports declined to approximately 15.8% of total exports in 2019, compared to approximately 40.1% at the end of 2010, when the structural changes started.

In 2015, exports increased by 9.1%, primarily due to an increase in exports of foreign-owned companies, mainly in the TIDZs. During the same year, import growth decreased to 5.4%. Import growth was primarily due to export related imports as energy imports decreased as a result of the persistent fall in world prices. These developments led to a further trade deficit decrease by 1.6 p.p. of GDP to 18.9% of GDP in 2015.

In 2016, exports of goods increased by 7.4% year on year, primarily due to an increase in the exports of foreign companies, mostly located in the TIDZs. The import component grew by 6.5%, driven by the export-related imports. This caused an improvement of the overall trade balance by 0.4 p.p. of GDP. The trade deficit decreased to 18.5% of GDP in 2016.

In 2017, exports registered growth of 14.3%. Increased exports by the new foreign owned companies as well as the recovery of the mining sector, driven by favourable prices in 2017, were the main factors driving growth. In the same period imports increased by 10.7%, due to increases in industry component and energy imports. During 2017, the trade deficit decreased to 18.1% of GDP.

In 2018, exports registered growth of 17%. This increase was due to increased exports by new export oriented companies (primarily in the automotive sector) and increased exports from traditional sectors, such as iron, steel and mining. Imports increased by 12.3% due to higher industry and investment imports. In 2018, the trade deficit decreased to 16.8% of GDP.

In 2019, exports registered growth of 9.4%. This increase was mostly due to increased exports by foreign owned companies and increased exports from traditional sectors, such as food and live animals, iron and steel. Imports grew by 9.9%, as a result of higher imports of non-ferrous metals by one of the large foreign-owned companies in the free economic zones, as well as energy, partly due to an unfavourable price increase of precious metals. As a result, the trade deficit widened to 18% of GDP.

In 2020, exports declined by 10% compared to 2019. Decreased exports of machinery and transport equipment and chemical products were the predominant factors driving this decline. Imports decreased also by 10%, due to decreased imports of energy, non-ferrous metals and machinery and equipment. During this period, the trade deficit decreased by 1.1 p.p. of GDP compared to 2019 and was 16.9% of GDP.

In the last five years, the Republic's economy has experienced significant structural changes as well as changes in the direction of trade. This process has been driven by FDI, through investments in already established sectors, as well as in new sectors in the economy. For example, a number of key "greenfield" investments from abroad contributed to the implementation through the TIDZs of the automotive industry in North Macedonia. See "*Macedonian Economy—Key components of the economy—Industry*".

Composition of trade

The following tables show the composition of imports and exports by sector for the period indicated:

Imports[1]	**For the year ended 31 December**							**For the year ended 31 December**						
Groups of Products[2]	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**[3]
	(EUR millions)							*(% of GDP)*						
Food and live animals .	517.8	551.7	554.5	605.7	628.1	670.8	664.5	6.0	6.1	5.7	6.0	5.8	6.0	6.2
Meat and meat preparations....................	118.8	122.4	118.4	132.8	138.6	145.0	134.8	1.4	1.3	1.2	1.3	1.3	1.3	1.3
Cereals and cereal preparations....................	76.5	84.1	78.6	87.4	88.9	98.4	96.8	0.9	0.9	0.8	0.9	0.8	0.9	0.9
Beverages and tobacco	54.0	60.2	72.9	74.8	81.8	83.1	69.2	0.6	0.7	0.8	0.7	0.8	0.7	0.6
Crude materials, inedible, except fuels....	202.7	189.6	131.8	173.1	204.2	244.1	220.5	2.4	2.1	1.4	1.7	1.9	2.2	2.0
Metalliferous ores and metal scrap	132.3	111.1	52.0	89.2	118.4	156.6	135.1	1.5	1.2	0.5	0.9	1.1	1.4	1.3
Mineral fuels, lubricants and related materials........................	789.7	633.5	551.0	667.0	779.3	865.1	601.0	9.2	7.0	5.7	6.6	7.3	7.7	5.6
Petroleum and petroleum products..........................	532.0	418.1	380.9	444.0	539.5	599.9	341.9	6.2	4.6	3.9	4.4	5.0	5.4	3.2
Electric energy	140.7	119.8	83.9	111.2	113.5	135.4	154.1	1.6	1.3	0.9	1.1	1.1	1.2	1.4
Animal and vegetable oils and fats	42.6	52.6	53.2	44.0	44.8	45.4	50.3	0.5	0.6	0.6	0.4	0.4	0.4	0.5
Chemical Products.......	624.0	688.3	724.5	766.2	892.4	999.7	1,083.1	7.3	7.6	7.5	7.6	8.3	8.9	10.1

Imports(1)	For the year ended 31 December							For the year ended 31 December						
Groups of Products(2)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020(3)**
	(EUR millions)							*(% of GDP)*						
Medical and pharmaceutical products	133.2	131.4	146.4	152.0	188.2	186.2	214.5	1.6	1.4	1.5	1.5	1.8	1.7	2.0
Chemical materials and products..........................	89.9	126.8	163.3	179.6	213.3	219.1	182.7	1.0	1.4	1.7	1.8	2.0	2.0	1.7
Manufactured goods classified by materials .	1,883.2	2,063.5	2,311.8	2,554.8	2,824.0	3,141.8	2,714.7	22.0	22.7	23.9	25.4	26.3	28.0	25.2
Textile yarns, fabrics, etc...................................	400.4	419.8	423.3	450.4	461.1	448.6	393.0	4.7	4.6	4.4	4.5	4.3	4.0	3.7
Iron and steel..................	274.3	293.5	340.1	373.8	455.5	431.3	362.3	3.2	3.2	3.5	3.7	4.2	3.8	3.4
Non ferrous metals	687.1	743.6	830.5	944.7	1,008.4	1,281.1	1,069.6	8.0	8.2	8.6	9.4	9.4	11.4	9.9
Machinery and transport equipment....	1,030.7	1,168.7	1,322.7	1,473.9	1,701.9	1,828.6	1,668.4	12.0	12.9	13.7	14.7	15.8	16.3	15.5
Road vehicles................	224.4	246.8	298.1	325.7	356.3	382.7	324.8	2.6	2.7	3.1	3.2	3.3	3.4	3.0
Miscellaneous manufactured articles .	355.1	388.5	446.6	467.9	514.9	550.3	516.6	4.1	4.3	4.6	4.7	4.8	4.9	4.8
Commodities and transactions not classified in SITC.........	4.7	4.6	7.4	7.5	5.0	7.6	6.2	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Total Imports................	**5,504.5**	**5,801.1**	**6,176.5**	**6,834.9**	**7,676.3**	**8,436.3**	**7,594.5**	**64.3**	**63.9**	**64.0**	**68.1**	**71.4**	**75.3**	70.5

Source: State Statistical Office.

Notes:

(1) Import data prepared by the State Statistical Office are on a CIF basis and may not be directly comparable to the import statistics in the Balance of Payments data, which are prepared by the NBRNM on a FOB basis.

(2) Standard International Trade Classification (SITC).

(3) Estimated.

Imports(1)	For the year ended 31 December						
Groups of Products(2)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
	(share of total import, %)						
Food and live animals....	9.4	9.5	9.0	8.9	8.2	8.0	8.8
Meat and meat preparations	2.2	2.1	1.9	1.9	1.8	1.7	1.8
Cereals and cereal preparations	1.4	1.4	1.3	1.3	1.2	1.2	1.3
Beverages and tobacco ..	1.0	1.0	1.2	1.1	1.1	1.0	0.9
Crude materials, inedible, except fuels	3.7	3.3	2.1	2.5	2.7	2.9	2.9
Metalliferous ores and metal scrap........................	2.4	1.9	0.8	1.3	1.5	1.9	1.8
Mineral fuels, lubricants and related materials.....	14.3	10.9	8.9	9.8	10.2	10.3	7.9
Petroleum and petroleum products	9.7	7.2	6.2	6.5	7.0	7.1	4.5
Electric energy	2.6	2.1	1.4	1.6	1.5	1.6	2.0
Animal and vegetable oils and fats......................	0.8	0.9	0.9	0.6	0.6	0.5	0.7
Chemical Products.........	11.3	11.9	11.7	11.2	11.6	11.8	14.3

Imports[1]	For the year ended 31 December						
Groups of Products[2]	2014	2015	2016	2017	2018	2019	2020
	(share of total import, %)						
Medical and pharmaceutical products..	2.4	2.3	2.4	2.2	2.5	2.2	2.8
Chemical materials and products	1.6	2.2	2.6	2.6	2.8	2.6	2.4
Manufactured goods classified by materials ...	34.2	35.6	37.4	37.4	36.8	37.2	35.7
Textile yarns, fabrics, etc.	7.3	7.2	6.9	6.6	6.0	5.3	5.2
Iron and steel	5.0	5.1	5.5	5.5	5.9	5.1	4.8
Non ferous metals	12.5	12.8	13.4	13.8	13.1	15.2	14.1
Machinery and transport equipment......	18.7	20.1	21.4	21.6	22.2	21.7	22.0
Road vehicles	4.1	4.3	4.8	4.8	4.6	4.5	4.3
Miscellaneous manufactured articles....	6.5	6.7	7.2	6.8	6.7	6.5	6.8
Commodities and transactions not classified in SITC	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Imports.................	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: State Statistical Office

Notes:

(1) Import data prepared by the State Statistical Office are on a CIF basis and may not be directly comparable to the import statistics in the Balance of Payments data, which are prepared by the NBRNM on a FOB basis.

(2) Standard International Trade Classification (SITC).

Exports[1]	For the year ended 31 December						For the year ended 31 December					
	(€ million)						*(% GDP)*					
Groups of Products[2]	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020[3]
	(EUR millions)						*(in % of GDP)*					
Food and live animals........	306.2	315.2	306.8	319.7	367.4	363.2	3.4	3.3	3.1	3.0	3.3	3.4
Fruits and vegetables............	164.7	172.0	150.5	145.9	175.3	183.9	1.8	1.8	1.5	1.4	1.6	1.7
Beverages and tobacco	144.9	177.6	197.8	194.1	219.0	193.7	1.6	1.8	2.0	1.8	2.0	1.8
Beverages.............................	48.3	59.0	58.7	65.8	75.2	68.6	0.5	0.6	0.6	0.6	0.7	0.6
Tobacco and tobacco preparations	96.6	118.6	139.2	128.4	143.8	125.1	1.1	1.2	1.4	1.2	1.3	1.2
Crude materials, inedible, except fuels	195.2	187.5	286.3	318.6	332.0	283.9	2.2	1.9	2.9	3.0	3.0	2.6
Metalliferous ores and metal scrap	149.0	137.8	210.2	232.3	234.6	209.5	1.6	1.4	2.1	2.2	2.1	1.9
Mineral fuels, lubricants and related materials.........	55.5	52.0	75.4	99.8	131.2	81.5	0.6	0.5	0.8	0.9	1.2	0.8
Petroleum and petroleum products................................	42.4	41.4	48.3	70.6	93.5	35.2	0.5	0.4	0.5	0.7	0.8	0.3
Animal and vegetable oils and fats................................	18.3	18.4	6.1	8.4	12.7	8.9	0.2	0.2	0.1	0.1	0.1	0.1
Chemical Products............	923.0	1,036.8	1,200.9	1,420.9	1,560.7	1,377.9	10.2	10.7	12.0	13.2	13.9	12.8
Medical and pharmaceutical products................................	63.8	69.5	79.9	88.4	93.7	108.9	0.7	0.7	0.8	0.8	0.8	1.0

Exports[(1)]	For the year ended 31 December						For the year ended 31 December					
	(€ million)						*(% GDP)*					
Groups of Products[(2)]	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020[(3)]**
Chemical materials and products................................	779.2	883.4	1.031.6	1.233.9	1.348.7	1.154.6	8.6	9.1	10.3	11.5	12.0	10.7
Manufactured goods classified by materials........	724.4	625.8	676.8	822.8	852.5	850.4	8.0	6.5	6.7	7.7	7.6	7.9
Non metallic mineral manufactures, n.e.s..............	43.3	41.0	52.9	61.7	65.6	73.6	0.5	0.4	0.5	0.6	0.6	0.7
Iron and steel.......................	522.2	414.0	435.6	542.3	580.2	556.1	5.8	4.3	4.3	5.0	5.2	5.2
Machinery and transport equipment...........................	1,008.6	1,234.6	1,476.9	1,869.7	2,115.3	1,905.9	11.1	12.8	14.7	17.4	18.9	17.7
General industrial machinery and equipment....	446.6	518.0	553.6	654.8	775.1	726.3	4.9	5.4	5.5	6.1	6.9	6.7
Electrical machinery, apparatus and appliances, ...	401.7	482.9	640.1	851.4	947.4	854.3	4.4	5.0	6.4	7.9	8.5	7.9
Miscellaneous manufactured articles........	710.4	738.3	787.3	813.0	824.7	708.7	7.8	7.6	7.8	7.6	7.4	6.6
Clothing	481.9	474.0	465.4	455.8	433.3	361.3	5.3	4.9	4.6	4.2	3.9	3.4
Footwear..............................	57.9	54.1	58.1	49.2	38.7	25.1	0.6	0.6	0.6	0.5	0.3	0.2
Commodities and transactions not classified in SITC................................	1.1	4.1	4.3	5.4	6.1	3.8	0.0	0.0	0.0	0.1	0.1	0.0
Total Exports	4,087.6	4,390.3	5,018.7	5,872.5	6,421.6	5,777.9	45.1	45.5	50.0	54.7	57.3	53.7

Source: State Statistical Office

Notes:

(1) Import data prepared by the State Statistical Office are on a CIF basis and may not be directly comparable to the import statistics in the Balance of Payments data, which are prepared by the NBRNM on a FOB basis.

(2) Standard International Trade Classification (SITC).

(3) Estimated.

The registered decline in the export of goods in 2020 was due to the unfavourable export performance in the first half of the year. The exports declined by 22.3% on annual bases due to COVID-19 and restrictive measures. During the second half of 2020 exports started to recover as restrictive measures were gradually lifted and the global value chains began to normalise, which resulted in an annual increase of exports during the last quarter of 2020 by 5.1%. During the second half of 2020, the export of goods grew by 1.9% compared to the same period of previous year.

Exports[(1)]	For the year ended 31 December					
Groups of Products[(2)]	2015	2016	2017	2018	2019	2020
	(share of total export, %)					
Food and live animals..............................	7.5	7.2	6.1	5.4	5.7	6.3
Fruits and vegetables	4.0	3.9	3.0	2.5	2.7	3.2
Beverages and tobacco	3.5	4.0	3.9	3.3	3.4	3.4
Beverages	1.2	1.3	1.2	1.1	1.2	1.2
Tobacco and tobacco preparations............	2.4	2.7	2.8	2.2	2.2	2.2
Crude materials, inedible, except fuels..	4.8	4.3	5.7	5.4	5.2	4.9
Metalliferous ores and metal scrap	3.6	3.1	4.2	4.0	3.7	3.6
Mineral fuels, lubricants and related materials	1.4	1.2	1.5	1.7	2.0	1.4
Petroleum and petroleum products	1.0	0.9	1.0	1.2	1.5	0.6

Exports[1]	For the year ended 31 December					
Groups of Products[2]	2015	2016	2017	2018	2019	2020
	(share of total export, %)					
Animal and vegetable oils and fats	0.4	0.4	0.1	0.1	0.2	0.2
Chemical Products	22.6	23.6	23.9	24.2	24.3	23.8
Medical and pharmaceutical products	1.6	1.6	1.6	1.5	1.5	1.9
Chemical materials and products	19.1	20.1	20.6	21.0	21.0	20.0
Manufactured goods classified by materials	17.7	14.3	13.5	14.0	13.3	14.7
Non metallic mineral manufactures, n.e.s	1.1	0.9	1.1	1.1	1.0	1.3
Iron and steel	12.8	9.4	8.7	9.2	9.0	9.6
Machinery and transport equipment	24.7	28.1	29.4	31.8	32.9	33.0
General industrial machinery and equipment	10.9	11.8	11.0	11.2	12.1	12.6
Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof	9.8	11.0	12.8	14.5	14.8	14.8
Miscellaneous manufactured articles	17.4	16.8	15.7	13.8	12.8	12.3
Clothing	11.8	10.8	9.3	7.8	6.7	6.3
Footwear	1.4	1.2	1.2	0.8	0.6	0.4
Commodities and transactions not classified in SITC	0.0	0.1	0.1	0.1	0.1	0.1
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Statistical Office

Notes:

(1) Export data prepared by the State Statistical Office are on a CIF basis and may not be directly comparable to the export statistics in the Balance of Payments data, which are prepared by the NBRNM on a FOB basis.

(2) Standard international Trade Classification (SITC).

Direction of trade

The following table sets out the direction of imports and exports with significant trade partners for the periods indicated:

	For the year ended 31 December									
	2016		2017		2018		2019		2020	
	(EUR millions)	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*
Export	4,390.3	100.0	5,018.7	100.0	5,872.5	100.0	6,421.6	100.0	5,777.9	100
Germany	2,034.0	46.3	2,354.1	46.9	2,765.1	47.1	3,128.8	48.7	2,717.2	47.0
Bulgaria	223.0	5.1	294.1	5.9	306.7	5.2	313.9	4.9	271.9	4.7
Kosovo	188.6	4.3	198.8	4.0	226.4	3.9	297.6	4.6	233.7	4.0
Serbia	194.3	4.4	219.2	4.4	235.4	4.0	248.4	3.9	223.1	3.9
Belgium	170.9	3.9	177.7	3.5	219.9	3.7	213.1	3.3	157.5	2.7
Italy	158.4	3.6	163.9	3.3	184.7	3.1	173.8	2.7	143.1	2.5
Greece	147.7	3.4	180.1	3.6	190.5	3.2	172.8	2.7	175.5	3.0
Hungary	40.8	0.9	75.5	1.5	121.0	2.1	162.9	2.5	171.6	3.0
Romania	121.8	2.8	155.7	3.1	164.8	2.8	153.7	2.4	105.6	1.8
China	43.5	1.0	55.8	1.1	56.1	1.0	149.1	2.3	141.8	2.5

	For the year ended 31 December									
	2016		2017		2018		2019		2020	
	(EUR millions)	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*
Others	1,067.3	24.3	1,143.9	22.8	1,401.9	23.9	1,407.5	21.9	1,436.9	24.9
Import...........................	6,106.7	100	6,834.9	100.0	7,676.3	100.0	8,436.3	100.0	7,594.5	100.0
Germany.........................	750.2	12.3	805.6	11.8	890.2	11.6	960.9	11.4	809.1	10.7
Great Britain	654.7	10.7	691.2	10.1	729.6	9.5	969.1	11.5	1,170.4	15.4
Greece	449.7	7.4	546.1	8.0	650.6	8.5	683.7	8.1	451.7	5.9
Serbia.............................	459.8	7.5	489.4	7.2	519.3	6.8	606.3	7.2	558.3	7.4
China	381.5	6.2	394.1	5.8	443.8	5.8	486.9	5.8	522.6	6.9
Italy................................	348.0	5.7	378.8	5.5	431.1	5.6	471.1	5.6	338.9	4.5
Turkey	315.8	5.2	324.8	4.8	360.8	4.7	404.8	4.8	388.5	5.1
Bulgaria..........................	281.6	4.6	293.2	4.3	329.8	4.3	324.5	3.8	309.7	4.1
USA	135.4	2.2	156.0	2.3	207.9	2.7	276.8	3.3	207.5	2.7
Romania	192.9	3.2	219.6	3.2	262.8	3.4	214.1	2.5	185.8	2.4
Others	2,137.1	35.0	2,536.2	37.1	2,850.4	37.1	3,038.1	36.0	2,652.0	34.9

Source: State Statistical Office

Note:

Export and import data prepared by the State Statistical Office are on a CIF basis, whereas the export and import statistics in the balance of payments data prepared by the NBRNM are on a FOB basis.

Germany, the UK and Greece are the most important trading partners of North Macedonia, with Germany accounting for 47% of total exports in 2020. In the last decade, Germany has recorded the largest trade surplus vis-à-vis North Macedonia. These high levels were driven primarily by an increase in exports to Germany in connection with greenfield investment projects in the automotive industry that produce products for export to Germany. The following table sets out amount and composition of exports to Germany for the periods indicated:

	For the year ended 31 December			
	2019		2020	
	(€ millions)	*(Share in percent)*	*(€ millions)*	*(Share in percent)*
Total exports to Germany(1)(2)	3,128.8	100.0%	2,717.2	100.0%
Key exports by tariff:				
Section II: Vegetable products................	15.0	0.5%	17.3	0.6%
Section IV: Prepared foodstuffs, beverages and tobacco	23.5	0.8%	21.8	0.8%
Section VI: Chemical products...............	1,323.9	42.3%	1,115.4	41.0%
Section XI: Textiles...............................	262.8	8.4%	222.6	8.2%
Section XV: Base metals........................	36.1	1.2%	30.6	1.1%
Section XVI: Machinery and electrical equipment	1,300.1	41.6%	1,169.0	43.0%
Section XX: Miscellaneous manufactured articles............................	120.4	3.8%	93.2	3.4%

Notes:

(1) Preliminary data.

(2) Section references are provided for ease of reference only. (More details in: Customs Clearance Guide 2019, *http://www.customs.gov.mk*)

Trade with the UK is mostly driven by imports, a large share of which consists of production inputs for a large foreign owned company in the Macedonian automotive sector. In 2020, imports from the UK amounted to €1.17 billion, 15.4% of total imports. The primary imports from the UK are platinum and platinum alloys (48.3%), metals from the platinum group and their alloys (26.6%), precious metals and compounds (18.3%), motor vehicles (0.4%) and plastic-coated textiles (0.4%). In 2020, exports to the UK amounted to €142.6 million, 2.5% of total exports. Greenfield investment projects in the automotive industry have also been a main driver of the steady increase in exports to the UK. The primary exports to the UK are precious metal catalysts (25.6%), ash and residues containing metals (except iron and steel) (23%), bedding (8.3%) and seat parts (8%). The UK's share of total exports increased from 1% in 2015 to 2.5% in 2020.

On the other hand, the share of Greece in total exports gradually decreased to 3% in 2020, from 3.7% in 2015. In 2020, the highest trade deficit was recorded with the UK, reflecting imports of raw materials used in manufacturing products for export.

In terms of trading regions, the EU remains the leading trade partner of North Macedonia, with an average share of 69.9% of total trade from 2015 to 2020. The share of exports directed to EU countries (mainly to the EU's largest economy, Germany) in this period increased by 3.7%, while imports from the EU decreased by 0.3%. Meanwhile, the share of trade with Western Balkan countries amounted to an average of 10.3% of total trade from 2015 to 2020. In 2020, there were no major changes in the direction of trade. Trade with EU member states accounted for 69.6% of total trade with 80% share of EU directed exports and 61.7% accounting for imports. Germany remains North Macedonia's most important export partner with 47.0% of total exports in 2020, while the largest share of the imports comes from the UK accounting for 15.4% during 2020.

Foreign Direct Investment

Increasing the level of FDI remains an important priority for the Government, reflecting the importance of such investments in improving the competitiveness and structure of the economy. After the global economic slowdown in 2012, accompanied by higher foreign investor risk aversion, FDI significantly decreased to €111.2 million from €344.4 million in 2011. Positive inflows were registered in the form of equity and reinvestment of earnings, while intercompany lending remained fairly constant. Since then, annual FDI inflows have fluctuated by approximately €250 million on average, comprised of equity and reinvested earnings and intercompany lending being positive, on a cumulative basis. This trend was disrupted in 2018, when €614.1 million of inward FDI flows was registered, with a favourable structure consisting of a 65% share of equity and reinvested earnings, accompanied by positive international lending. In 2019, inward FDI flows, although lower compared to the previous year, amounted to €398.8 million. In 2020, inward FDI amounted to €239.9 million, reflecting global uncertainty surrounding COVID-19 and the risk aversion of foreign investors.

In recent years, the TIDZs have been a key part of the Government's efforts to increase levels of FDI. See "*Macedonian Economy—Key components of the economy—Industry*". North Macedonia has increasingly become a near-shore IT outsourcing destination for foreign companies, especially given the English-speaking competencies of some of its population.

Foreign Direct Investment in GDP

The share of FDI in GDP, from 2015 to 2018 averaged approximately 48.8%, reaching a high of 50.9% of GDP in 2019.

The following table shows the breakdown of FDI flows and stock as a percentage of GDP for the periods indicated:

	For the year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Annual FDI flows(1,2,3)						
in EUR millions	216.7	338.4	181.7	614.1	398.8	239.2
as p.p. of GDP	2.4	3.5	1.8	5.7	3.6	2.2
FDI stock(3)						
in EUR millions	4,400.1	4,657.3	4,697.8	5,307.0	5,704.1	(4)
as p.p. of GDP	48.5	48.2	46.8	49.4	50.9	(4)

Source: NBRNM.

Notes:

(1) In June 2014, in accordance with the Balance of Payments and International Investment Position Manual (BPM6), 6th edition, IMF, a revision of the data was done.

(2) Revision of data has been done in September 2020 due to inclusion of data from the annual surveys for inward direct investments (VS 22) and outward direct investments (VS 11) and improved coverage of credit indebtedness data.

(3) Including reinvestment of earnings.

(4) 2020 data not yet available.

In 2019, FDI stock was concentrated in manufacturing (representing 38% of total FDI stock for the year), financial services (19.7%) and wholesale and retail trade (12.9%). Other sectors that the Government is targeting as new areas for FDI include information and communication technology, electronics, pharmaceuticals, agribusiness, food processing and tourism.

Greenfield investments constitute an important component of FDI, and the Government expects that increased levels of FDI, with greenfield investments in particular, will be crucial for the sustained growth of North Macedonia and to finance future current account deficits.

The following table shows greenfield investments as a percentage of total FDI for the periods indicated.

	For the year ended 31 December				
	2015	**2016**	**2017**	**2018**	**2019**
			(€ million)		
Greenfield investments	1,107.7	1,275.6	1,330.2	1,567.6	1,107.7
Total FDI	4,400.1	4,657.3	4,697.8	5,307.0	5,704.1
Share of greenfield investment in total FDI (in %)	25.2	27.4	28.3	29.5	19.4

Source: NBRNM.

Foreign Direct Investment by Country

The six largest investors in North Macedonia, as measured by stock of FDI, were the UK, Austria, Greece, Netherlands, Slovenia and Germany, as at 31 December 2019. The following tables show the breakdown of the share of stock of FDI by country of origin in the total FDI for the periods indicated.

Stock of Foreign Direct Investment in North Macedonia – by country

Country	2015		2016		2017		2018		2019	
	(EUR millions)	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*
Austria	524.9	11.9	567.5	12.2	636.7	13.6	687.1	12.9	771.9	13.5
Bulgaria	130.3	3.0	148.0	3.2	150.4	3.2	163.1	3.1	193.6	3.4
Croatia	92.9	2.1	93.8	2.0	63.6	1.4	67.7	1.3	73.3	1.3
Cyprus	54.4	1.2	162.9	3.5	164.2	3.5	90.9	1.7	95.0	1.7
France	41.0	0.9	43.9	0.9	43.0	0.9	57.0	1.1	4.1	0.1
Germany	190.7	4.3	248.2	5.3	273.0	5.8	320.8	6.0	366.7	6.4
Greece	477.3	10.8	463.4	10.0	473.9	10.1	488.3	9.2	518.3	9.1
Hungary	226.5	5.1	209.5	4.5	213.5	4.5	213.8	4.0	206.8	3.6
Italy	94.2	2.1	107.6	2.3	105.0	2.2	122.7	2.3	139.5	2.4
Luxembourg	38.2	0.9	36.8	0.8	55.8	1.2	87.8	1.7	91.4	1.6
Netherlands	960.0	21.8	423.3	9.1	375.3	8.0	426.1	8.0	398.3	7.0
Serbia	84.7	1.9	93.0	2.0	80.7	1.7	88.3	1.7	98.4	1.7
Slovenia	375.0	8.5	374.5	8.0	323.9	6.9	362.9	6.8	397.3	7.0
Switzerland	152.1	3.5	179.6	3.9	184.4	3.9	176.3	3.3	182.9	3.2
Turkey	214.6	4.9	247.8	5.3	252.3	5.4	283.9	5.3	344.5	6.0
United Kingdom	135.0	3.1	519.4	11.2	531.6	11.3	739.6	13.9	659.9	11.6
Others	608.6	13.8	737.9	15.8	770.5	16.4	930.7	17.5	1,162.4	20.4
Total	4,400.1	100.0	4,657.3	100.0	4,697.8	100.0	5,307.0	100.0	5,704.1	100.0

Source: NBRNM.

Foreign Direct Investment in North Macedonia (flow) – by country

For the year ended 31 December

	2015		2016		2017		2018		2019		2020	
	(EUR millions)	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*	*(EUR millions)*	*(Share in percent)*
Austria	18.0	8.3	35.2	10.4	29.5	16.2	49.3	8.0	31.4	7.9	-8.3	-3.5
Bulgaria	-0.4	-0.2	17.9	5.3	-11.8	-6.5	11.5	1.9	23.5	5.9	12.2	5.1
Croatia	-3.0	-1.4	2.5	0.7	-13.0	-7.2	-12.9	-2.1	3.1	0.8	-0.8	-0.3
Cyprus	0.8	0.4	8.6	2.5	5.1	2.8	-1.0	-0.2	2.7	0.7	1.5	0.6
France	-157.0	-72.4	3.2	1.0	0.3	0.2	13.7	2.2	-0.8	-0.2	4.2	1.7
Germany	39.3	18.1	48.5	14.3	47.6	26.2	46.6	7.6	48.6	12.2	56.7	23.6
Greece	43.8	20.2	-15.7	-4.6	27.2	14.9	23.6	3.8	29.7	7.4	6.7	2.8
Hungary	-0.6	-0.3	-3.2	-0.9	-0.3	-0.2	-1.9	-0.3	-7.0	-1.8	-6.5	-2.7
Italy	10.4	4.8	20.0	5.9	4.2	2.3	19.3	3.1	16.5	4.1	8.1	3.4
Luxembourg	-21.7	-10.0	3.8	1.1	22.2	12.2	34.6	5.6	3.1	0.8	-5.5	-2.3
Netherlands	94.5	43.6	11.0	3.2	-37.6	-20.7	48.9	8.0	-1.8	-0.5	-4.6	-1.9
Serbia	3.1	1.4	9.3	2.8	1.0	0.6	2.6	0.4	11.8	3.0	5.1	2.1
Slovenia	-7.7	-3.5	4.6	1.4	19.4	10.7	37.5	6.1	37.5	9.4	-10.6	-4.4
Switzerland	3.5	1.6	18.2	5.4	25.1	13.8	-12.3	-2.0	-13.5	-3.4	12.1	5.0
Turkey	27.1	12.5	33.0	9.7	6.6	3.6	33.9	5.5	55.5	13.9	49.3	20.6
United Kingdom	-37.6	-17.4	50.3	14.9	22.7	12.5	204.8	33.3	-78.7	-19.7	127.3	53.1
Others	204.4	94.3	91.4	27.0	33.5	18.4	115.9	18.9	237.3	59.5	-7.0	-2.9
Total	216.7	100.0	338.4	100.0	181.7	100.0	614.1	100.0	398.8	100.0	239.8	100.0

Source: NBRNM.

The following table shows the breakdown of the share of stock of FDI by activity for the periods indicated.

Stock of Foreign Direct Investment in North Macedonia – by activity

	As at 31 December									
	2015		**2016**		**2017**		**2018**		**2019**	
	(€ millions)	*(Share in per cent)*	*(€ millions)*	*(Share in per cent)*	*(€ millions)*	*(Share in per cent)*	*(€ millions)*	*(Share in per cent)*	*(€ millions)*	*(Share in per cent)*
Agriculture, forestry and fishing	43.8	1.0	46.4	1.0	23.8	0.5	29.6	0.6	64.9	1.1
Mining and quarrying	119.4	2.7	116.7	2.5	77.0	1.6	142.6	2.7	152.5	2.7
Manufacturing	1,563.7	35.5	1,685.6	36.2	1,718.0	36.6	2,071.2	39.0	2,167.3	38.0
Electricity, gas, steam and air conditioning supply	327.4	7.4	365.2	7.8	380.7	8.1	410.2	7.7	448.5	7.9
Water supply, sewerage, water management and remediation activities	4.3	0.1	4.4	0.1	2.8	0.1	4.8	0.1	5.5	0.1
Construction	231.2	5.3	337.6	7.2	371.0	7.9	376.5	7.1	421.6	7.4
Services	2,109.3	47.9	2,100.3	45.1	2,124.6	45.2	2,272.3	42.8	2,444.0	42.8
Wholesale and retail trade, repair of motor vehicles and motorcycles	706.4	16.1	666.0	14.3	658.2	14.0	688.3	13.0	733.0	12.9
Transportation and storage	39.4	0.9	34.5	0.7	30.1	0.6	34.5	0.7	43.1	0.8
Accommodation and food services activities	43.9	1.0	42.1	0.9	40.2	0.9	37.3	0.7	40.9	0.7
Information and communication	174.4	4.0	158.4	3.4	153.5	3.3	162.0	3.1	166.8	2.9
Financial and insurance activities	902.8	20.5	925.1	19.9	964.5	20.5	1,007.7	19.0	1,125.5	19.7
Real estate activities	65.2	1.5	67.7	1.5	87.5	1.9	99.1	1.9	124.0	2.2
Other service activities	177.3	4.0	206.5	4.4	190.5	4.1	243.5	4.6	210.7	3.7
Private purchases and sales of real estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	4,400.1	100.0	4,657.3	100.0	4,697.8	100.0	5,307.0	100.0	5,704.1	100.0

Source: NBRNM.

Gross External Debt

The following table sets out the breakdown of gross external debt for the periods indicated:

Gross External Debt[(1)(2)(3)]	As at 31 December					As of 30 September
	2015	2016	2017	2018	2019	2020
			(€ million)			
General Government	2,091.0	2,511.9	2,565.9	2,822.6	2,806.4	3,374.9
Monetary Authorities (NBRM)	83.2	83.2	78.2	79.8	81.3	303.5
Banks	585.9	591.7	562.2	568.4	669.4	711.2
Other Sectors	1,845.6	2,077.5	2,098.5	2,274.0	2,422.5	2,420.0
Direct investment:						
Intercompany lending	1,684.7	1,952.2	2,067.6	2,098.9	2,174.8	2,277.0
Gross External Debt	6,290.5	7,216.6	7,372.5	7,843.7	8,154.4	9,086.6
of which:						
Public debt	2,933.7	3,445.3	3,461.8	3,75.2	3,836.6	4,642.3
Private debt	3,356.9	3,771.2	3,910.7	4,087.5	4,317.8	4,444.3

Source: National Bank of the Republic of North Macedonia

The following table shows the breakdown of gross external debt as a percentage of GDP for the periods indicated:

Gross External Debt[(1)(2)]	As at 31 December					As of 30 September
	2015	2016	2017	2018	2019	2020[(3)]
			(per cent of GDP)			
General Government	23.0	26.0	25.6	26.3	25.0	31.0
Monetary Authorities (NBRM)	0.9	0.9	0.8	0.7	0.7	2.8
Banks	6.5	6.1	5.6	5.3	6.0	6.6
Other Sectors	20.3	21.5	20.9	21.2	21.6	22.5
Direct investment:						
Intercompany lending	18.6	20.2	20.6	19.5	19.4	21.2
Gross External Debt	**69.3**	**74.7**	**73.4**	**73.0**	**72.7**	**84.4**
of which:						
Public debt	32.3	35.7	34.5	35.0	34.2	43.1
Private debt	37.0	39.1	39.0	38.0	38.5	41.3

Source: National Bank of the Republic of North Macedonia

Notes:

(1) Including liabilities of the NBRNM based on repo arrangements.

(2) Preliminary data.

(3) Estimated. Calculated based on 2020 GDP.

As at 30 September 2020, the gross external debt of North Macedonia amounted to 84.4% of 2020 GDP, representing an increase of 14.4 p.p. of GDP from 31 December 2014. External debt increased because of the rise in public debt by 9.9 p.p. of GDP, including a 2.1 p.p. increase of repo-related debt and private debt (by 4.5 p.p. of GDP), resulting from higher FDI related debt.

Private foreign debt

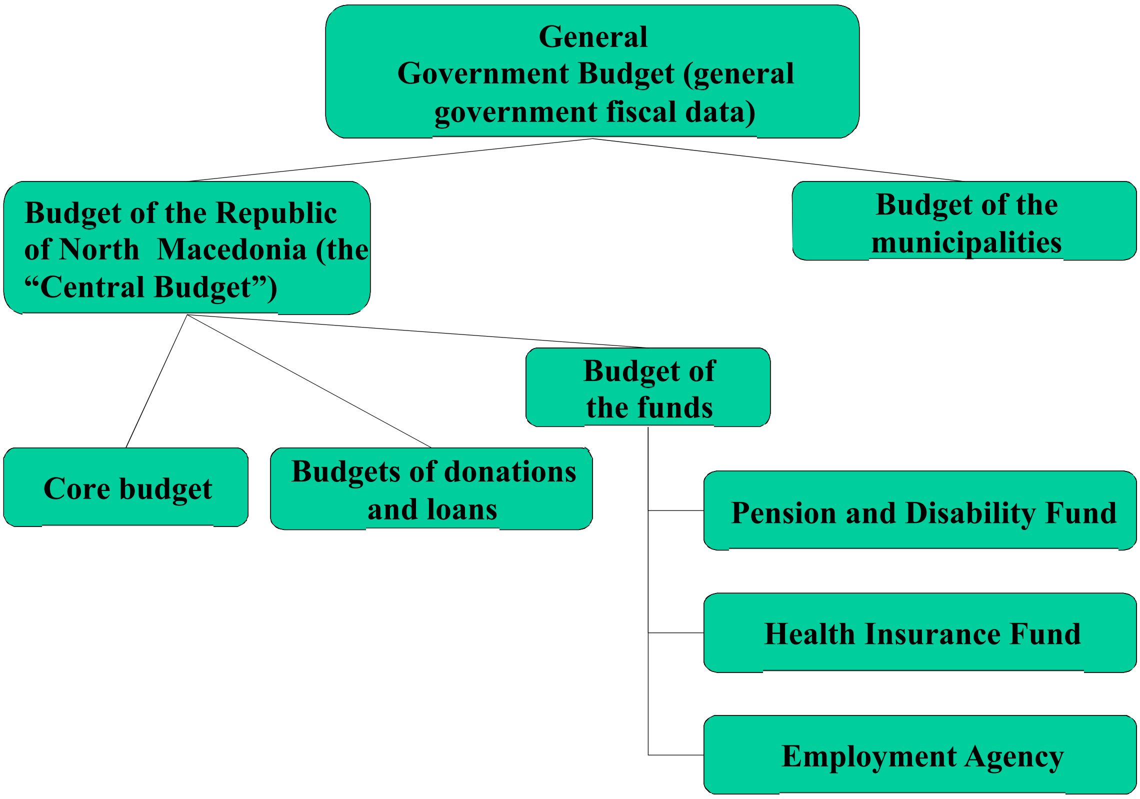
As at 30 September 2020, private foreign debt was €4.4 billion, or 41.3% of 2020 GDP and 48.9% of the gross external debt. By 30 September 2020, in nominal terms, private foreign debt expanded by 32.4% compared to its level at the end of 2015, and as a percentage of GDP, it increased by 4.3 p.p. During this period, the share of inter-company debt, which is generally considered less risky than financial loans, increased, reflecting the activity of new and existing foreign investors. Private foreign debt in the remainder of the corporate sector declined, primarily reflecting decreased foreign financing requirements. The foreign indebtedness of the banking system also declined in relative terms. Overall, the level of foreign indebtedness of the private sector remains relatively low. Moreover, intercompany lending and trade credits comprised approximately 70% of private foreign debt at the end of September 2020.

PUBLIC FINANCE

General Information and Methodology

The General Government Budget compiles fiscal data from the Central Budget and the budgets of the various municipalities. The Central Budget is the primary fiscal record that details the revenues and expenditures of Government institutions and budgetary funds. It is adopted each year by the Assembly and has the force of law and includes revenues and miscellaneous inflows as well as expenditures and miscellaneous outflows for the fiscal year (beginning on 1 January and ending on 31 December of each year). The fiscal statistics of North Macedonia are compiled on a consolidated basis and in accordance with the GFS Manual, IMF 1986 methodology.

The components of the General Government Budget and Central Budget of North Macedonia are reflected below:



The Central Budget

The *Organic Budget Law* sets out the steps for preparation of the Central Budget, taking into account the strategic priorities of the Government, the national fiscal strategy and strategic plans of the end users of the budget. By 15 April of each year, the Government determines the strategic priorities for the following year. The Ministry of Finance similarly prepares a medium-term fiscal strategy by proposing the directions and objectives of fiscal policy and determining the main fiscal targets for the period. The Ministry of Finance then reviews draft budget requests in accordance with the principles of efficiency, economy, prioritisation and rationality; it then prepares and submits the draft Central Budget to the Government for adoption by 1 November. The Government then submits the draft Central Budget by 15 November to the Assembly for discussion, with adoption of the final budget occurring by 31 December of each year. See "*–2021 Central Budget*".

Where more significant reallocations of approved funds are necessary or when the realisation of revenues and other inflows significantly deviates from projections, the Assembly, pursuant to the recommendation of the

Ministry of Finance, may adopt a supplementary budget. A supplementary budget was adopted in each of 2015, 2016, 2017, 2018, 2019 and 2020.

After the Central Budget is approved by the Assembly, budget users must prepare an annual financial plan, broken down on both a quarterly and monthly basis, for the use of appropriations. Expenditures must be made in accordance with the *Organic Budget Law* and the Manual for Treasury Working, the latter of which dictates mandatory procedures for making expenditures and collecting revenues. Budget users' accounts for this purpose are part of the single treasury account managed by the Ministry of Finance, and they must submit requests for payment to the Treasury before making any expenditure. Budget users (including municipalities) are not permitted to open accounts outside the treasury account.

The servicing of domestic and foreign loans, including Eurobonds, is exempt from the procedures described above. Under the law of North Macedonia, payments for domestic and foreign borrowing (including interest payments, principal repayments and guarantees) do not depend on budget allocations and procedures referring to the other budget expenditures. The payment of these expenditures has priority according to the amortisation plans and signed contracts.

2015-2020 results

In 2015, total budget revenues amounted to MKD 161.2 billion, or 96.6% of the projected revenue in the 2015 Budget, and were 10.5% higher than the amount in 2014. MKD 140.8 billion was realised from tax revenues and social contributions (87.4%). Tax revenues accounted for most (58%) of the total revenue followed by contributions (30%), non-tax revenues (8%), donations (3%) and capital revenues (1%). Tax revenues amounted to MKD 92.9 billion, or 97.5%, of the budget, and were 9.2% higher than in 2014. VAT tax revenue accounted for the most with 47%. The biggest increase in tax revenues was revenue from corporate income tax, which was 137.6% higher than the amount realised in 2014, due to the new Profit Tax Law which had positive fiscal implications on the budget. This was followed by revenue from excises, which increased by 13.7%, and revenues from personal income tax, which increased by 4.8%. VAT tax revenue in 2015 was lower by 4.9% compared to 2014. Revenues from social contributions increased by 8.4% compared to 2014. Non-tax revenues amounted to MKD 12.9 billion. Capital revenues amounted to MKD 2.3 billion, approximately 21% higher than the respective amounts realised in 2014. Revenues on the basis of donations were realised in the amount of MKD 4.7 billion. Total budget expenditures in 2015 amounted to MKD 180.6 billion or 96.6% of the budget. Total budget expenditures realized in 2015 were 7.5% higher than the total budget expenditures realized in 2014. MKD 24.7 billion was paid for salaries and allowances in 2015, a 6.9% increase compared to 2014. Expenditures related to goods and services were higher by 16.9% compared to 2014, amounting to MKD 18.1 billion, while transfers were higher by 5.6%, amounting to MKD 112.7 billion. Funds in the amount of MKD 45.6 billion were allocated for regular payment of pensions, while transfers to private pension funds amounted to MKD 4.7 billion. MKD 1.5 billion was allocated to the Employment Agency for payment of unemployment benefits. Social benefits amounted to MKD 7.5 billion. Funds to finance health services and benefits amounted to MKD 23.6 billion. Grants transferred to the local government units (including VAT grants and block grants) amounted to MKD 16.3 billion. MKD 6.5 billion was allocated for interest payments, while repayment of principal amounted to MKD 28.4 billion. Capital expenditures in 2015 amounted to MKD 18.7 billion, a 5.9% increase from 2014. In the period from 1 January to 31 December 2015, the budget deficit amounted to MKD 19.4 billion, or 3.5% of GDP.

In 2016, total budget revenues amounted to MKD 169.4 billion, or 97.2% compared to those projected in the 2016 Budget. Budget revenues were 5.1% higher compared to 2015. Within budget total revenues, MKD 150.4 billion related to tax revenues and social contributions. Tax revenues accounted for the largest share of total revenues (59%), followed by social contributions (30%), non-tax revenues (8%), donations (2%) and capital revenues (1%). The Government of North Macedonia realised tax revenues of MKD 100.1 billion, in line with the annual plan. Tax revenues on the basis of VAT accounted for the largest part of total tax revenue, amounting to 47%, which represented an increase of 7.7% compared to 2015. The most significant increase in tax revenues related to revenue from the excise tax, which were 12.3% higher than in 2015, followed by VAT revenue, which increased by 10.2%, and revenues from personal income tax, which increased by 10%. Profit tax revenues were 10.4% lower than in 2015. Revenues from social security contributions increased by 5% compared to 2015, amounting to 100.3% of the 2016 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 13 billion and MKD 1.9 billion, respectively. Donation based revenues amounted to MKD 3.6 billion.

Total 2016 budget expenditures amounted to MKD 185.4 billion, or 93.9% of the annual projection, which represented an increase of 2.6% compared to 2015. Salaries and allowances accounted for MKD 25.9 billion in 2016, representing an increase of 5.2% compared to 2015. Expenditures related to goods and services were 7.7% lower than in 2015, amounting to MKD 16.7 billion, while transfers were 5.5% higher, accounting for MKD 118.9 billion. MKD 48.3 billion were allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 6.3 billion. The Government allocated MKD 1.2 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 7.6 billion. Funds to finance health services and benefits amounted to MKD 25.6 billion. As for other transfers, grants were regularly transferred to local government units via VAT grants and block and earmarked grants in an amount of MKD 16.6 billion to finance the competences transferred to municipalities in the fields of education, child care, culture and firefighting protection.

In 2016, MKD 6.8 billion were allocated to interest payments and MKD 20.8 to the repayment of principal. Capital expenditures in 2016 amounted to MKD 17 billion, representing a 9.1% decrease compared to 2015.

In the period from 1 January to 31 December 2016, the Central Government Budget deficit amounted to MKD 16 billion, or 2.7% of GDP. In 2017, total budget revenues amounted to MKD 179.7 billion, or 97.3% compared to those projected in the 2017 Budget. Budget revenues were 6.1% higher compared to 2016. Within budget total revenues, MKD 157.5 billion related to tax revenues and social contributions. Tax revenues accounted for the largest share of total revenues (58%), followed by social contributions (29%), non-tax revenues (8%), donations (4%) and capital revenues (1%). The Government of North Macedonia realised tax revenues of MKD 104.6 billion, in line with the annual plan. Tax revenues on the basis of VAT accounted for the largest part of total tax revenue, amounting to 45.7%, which represented an increase of 4.2% compared to 2016. The most significant increase in tax revenues related to revenues from import duties, which were 8.7% higher than in 2016, followed by revenues from personal income tax, which increased by 7.4% and revenues from profit tax, which increased by 5.4%. Revenues from social security contributions increased by 5.1% compared to 2016, amounting to 100.3% of the 2017 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 13.4 billion and MKD 1.3 billion, respectively. Donation based revenues amounted to MKD 7.2 billion.

Total 2017 budget expenditures amounted to MKD 196.6 billion, or 96.7% of the annual projection, which represented an increase of 6% compared to 2016. Salaries and allowances accounted for MKD 26.2 billion in 2017, representing an increase of 1% compared to 2016. Expenditures related to goods and services were 8.1% lower than in 2016, amounting to MKD 15.3 billion, while transfers were 6.6% higher, accounting for MKD 126.8 billion. MKD 51.8 billion were allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 6.3 billion. The Government allocated MKD 1.3 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 8.3 billion. Funds to finance health services and benefits amounted to MKD 27 billion. As for other transfers, grants were regularly transferred to local government units via VAT grants and block and earmarked grants in an amount of MKD 17 billion to finance the competences transferred to municipalities in the fields of education, child care, culture and firefighting protection.

In 2017, MKD 8.4 billion were allocated to interest payments and MKD 17.6 to the repayment of principal. Capital expenditures in 2017 amounted to MKD 19.9 billion, representing a 17% increase compared to 2016.

In the period from 1 January to 31 December 2017, the Central Government Budget deficit amounted to MKD 16.9 billion, or 2.7% of GDP.

In 2018, total budget revenues amounted to MKD 188.5 billion, or 97.9% compared to those projected in the 2018 Budget. Budget revenues were 4.9% higher compared to 2017. Within budget total revenues, MKD 171 billion related to tax revenues and social contributions. Tax revenues accounted for the largest share of total revenues (61%), followed by social contributions (30%), non-tax revenues (6%), donations (2%) and capital revenues (1%). The Government of North Macedonia realised tax revenues of MKD 114.5 billion, in line with the annual plan. Tax revenues on the basis of VAT accounted for the largest part of total tax revenue, amounting to 43%, which represented an increase of 2.9% compared to 2017. The most significant increase in tax revenues related to revenue from profit tax, which were 29.9% higher than in 2017, followed by revenues from personal income tax, which increased by 15%, other tax revenues, which increased by 12.3% and revenues from the excise tax, which were 8.7% higher than in 2017. Revenues from social security contributions increased by 6.9% compared to 2017, amounting to 100.6% of the 2018 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 12.3 billion and MKD 2.2 billion, respectively. Donation based revenues amounted to MKD 3 billion.

Total 2018 budget expenditures amounted to MKD 200.1 billion, or 95% of the annual projection, which represented an increase of 1.8% compared to 2018. Salaries and allowances accounted for MKD 26.4 billion in 2018, representing an increase of 0.6% compared to 2017. Expenditures related to goods and services were 5.1% lower than in 2017, amounting to MKD 14.6 billion, while transfers were 9.9% higher, accounting for MKD 139.3 billion. MKD 54.2 billion were allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 7 billion. The Government allocated MKD 1.9 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 8.6 billion. Funds to finance health services and benefits amounted to MKD 28.9 billion. As for other transfers, grants were regularly transferred to local government units via VAT grants and block and earmarked grants in an amount of MKD 18.1 billion to finance the competences transferred to municipalities in the fields of education, child care, culture and firefighting protection.

In 2018, MKD 7.7 billion were allocated to interest payments and MKD 28.1 to the repayment of principal. Capital expenditures in 2018 amounted to MKD 12.1 billion, representing a 38.8% decrease compared to 2017.

In the period from 1 January to 31 December 2018, the Central Government Budget deficit amounted to MKD 11.6 billion, or 1.76% of GDP.

In 2019, total budget revenues amounted to MKD 203.9 billion, or 96.9% of those projected in the 2019 Budget. Budget revenues were 8.2% higher compared to 2018. Within budget total revenues, MKD 178.9 billion related to tax revenues and social contributions (revenues from social security contributions for pensions, health and unemployment). Tax revenues accounted for the largest share of total revenues (57%), followed by social contributions (31%), non-tax revenues (9%), donations (2%) and capital revenues (1%). The Republic of North Macedonia realised tax revenues of MKD 116.7 billion, in line with the annual plan. Tax revenues on the basis of VAT accounted for the largest part of total tax revenue, amounting to 44.6%, which represented an increase of 5.7% compared to 2018. The most significant increase in tax revenues related to other tax revenues, including fixed fees for licenses, gaming, and permits for the import of certain used goods, waste and lead scrap, which were 29.6% higher than in 2018, followed by revenues from import duties, which increased by 7.7%, and revenues from personal income tax, which increased by 6.5%. Profit tax revenues were 21.6% lower than in 2018. Revenues from social security contributions increased by 10% compared to 2018, amounting to 101.2% of the 2019 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 18.8 billion and MKD 2.4 billion, respectively. Donation based revenues amounted to MKD 3.9 billion.

Total 2019 budget expenditures amounted to MKD 217.5 billion, or 95.3% of the annual projection, which represented an increase of 8.7% compared to 2018. Salaries and allowances accounted for MKD 27.7 billion in 2019, representing an increase of 5.3% compared to 2018. Expenditures related to goods and services were 11.8% higher than in 2018, amounting to MKD 16.3 billion, while transfers were 5.9% higher, accounting for MKD 147.6 billion. MKD 56.3 billion were allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 8.9 billion. The Government allocated MKD 2.5 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 9.7 billion. Funds to finance health services and benefits amounted to MKD 30.8 billion. As for other transfers, grants were regularly transferred to local government units via VAT grants and block and earmarked grants in an amount of MKD 19.1 billion to finance the competences transferred to municipalities in the fields of education, child care, culture and firefighting protection.

In 2019, MKD 8.1 billion were allocated to interest payments and MKD 16.1 to the repayment of principal. Capital expenditures in 2019 amounted to MKD 17.8 billion, representing a 46.6% increase compared to 2018.

In the period from 1 January to 31 December 2019, the Central Government Budget deficit amounted to MKD 13.6 billion, or 1.95% of GDP.

In 2020, the health and economic crisis caused by COVID-19 had a strong impact on the plan and the implementation of the Central Budget. In order to deal with the epidemic, comprehensive measures were implemented to protect jobs, ensure budget liquidity, focus on highest priority liabilities, and minimize all less productive spending.

In 2020, the Government, through a redistribution of funds between the budget users of the central government and between the funds (which relocated MKD 6.5 billion) and through two supplementary budgets, implemented four sets of measures to amortize the impact on the economy and stimulating consumption.

Total revenues under Second Supplementary Budget were planned at the level of MKD 196.3 billion, which is the same as under the Supplementary Budget and 11.5% lower compared to the initial budget projections. Total expenditures under the Second Supplementary Budget were planned at the level of MKD 252.8 billion, a 4.1% (about MKD 10 billion) increase compared to the Supplementary Budget and 5.5% higher compared to the initial budget projections. The deficit for 2020 amounted to MKD 56.5 billion or 8.5% of GDP.

In 2020, total budget revenues amounted to MKD 189.8 billion or 96.7% of the annual projection, which represented a decrease of 6.9% compared to 2019. Tax revenues accounted for the largest share of total revenues (56%), followed by social contributions (35%), non-tax revenues (6%), donations (2%) and capital revenues (1%). The Republic of North Macedonia realised tax revenues and social contributions of MKD 173.5 billion or 99.5% of the annual plan and a decrease in 3% compared to 2019. Revenues on the basis of VAT accounted for the largest part of total tax revenue (44%), which represented a decrease of 10% compared to 2019. Social security contributions amounted to MKD 66.6 billion, an increase of 7.1% compared to 2019. Non-tax revenues and capital revenues amounted to MKD 11.4 billion and MKD 1.8 billion, respectively. Donation based revenues amounted to MKD 3.1 billion.

In 2020, total budget expenditures amounted to MKD 243.6 billion or 96.4% of the annual projection, which represented an increase of 12% compared to 2019, due to fiscal measures undertaken to support the economy and increased health expenditures in manging the COVID-19 pandemic. Salaries and allowances amounted to MKD 29.8 billion in 2020, representing an increase of 7.3% compared to 2019. Expenditures related to goods and services amounted to MKD 15.4 billion in 2020, representing an increase of 5.2% compared to 2019. Transfers amounted to MKD 174.3 billion, representing an increase of 18.2% compared to 2019. MKD 60.2

billion were allocated for regular payment of pensions, while transfers to private pension funds amounted to MKD 8.8 billion. The Government allocated MKD 2.7 billion to the Employment Agency for unemployment benefits and social benefits which amounted to MKD 11.6 billion. Funds to finance health services and benefits amounted to MKD 34.7 billion. As for other transfers, grants were regularly transferred to local government units via VAT grants and block and earmarked grants amounting to MKD 21.4 billion to finance education child care, culture and firefighting protection for municipalities. To support companies and citizens affected by COVID-19, the Government paid subsidies amounting to MKD 17.1 billion. Capital expenditures amounted to MKD 16.1 billion, a decrease of 9.5% compared to 2019. MKD 8 billion were allocated to interest payments and MKD 41.8 billion to the repayment of principal.

In 2020, the Central Government Budget deficit amounted to MKD 53.9 billion, or 8.1% of GDP.

2021 Central Budget

On 12 November 2020, the Government approved the annual budget for 2021 reflecting further measures intended to support domestic demand in light of disruptions caused by the COVID-19 pandemic and to reflect the resulting expected declines in government revenues. Measures implemented by the Government to combat the COVID-19 pandemic have impacted the projections in the budget for 2021.

Total revenues for the 2021 budget are planned at the level of MKD 212.6 billion, representing an increase of 12% compared to the 2020 Budget. Tax revenues are projected to increase to MKD 118 billion with a 9% decrease compared with the 2020 Budget. Non-tax revenues are project to realise MKD 17 billion due to administrative fees, concessions and other non-tax revenues and MKD 3.2 billion as capital revenues due to the sale of agricultural land and social housing. Social contributions, as a key source of income for the pension and health funds, is set at MKD 68.3 billion or representing a 2% increase compared with the 2020 budget. Other revenues (donations) are budgeted at MKD 6.2 billion.

In the budget for 2021, the following respective amounts have been reserved for health, social support and economic development: €640 million, €1.5 billion and €1.4 billion.

Total expenditures in the budget for 2021 is projected at MKD 247.5 billion, representing a decrease of 2.1% compared to the 2020 Budget. This revision contemplates current expenditure project at MKD 223.5 billion, representing a 4.4% decrease compared to 2020, including expenditures for payment of salaries which are projected to be MKD 31.4 billion, expenditures for goods and services which are projected to be MKD 21.3 billion Denars and current social transfers and subsidies which are projected to be MKD 161.3 billion. Capital investments are projected to be MKD 24 billion, representing an increase of 26.2% compared to 2020. Based on the budgeted revenues and expenditures the deficit is expected to amount to MKD 34.9 billion, or 4.9% of the GDP projected for 2021.

Financing of the projected deficit as well as debt repayments will be provided by domestic and foreign borrowing. Foreign borrowing is intended to be incurred in the form of loans and credit lines for the financing of certain projects, including the second tranche of a loan from the EU for macro-financial support in the amount of €80 million, as well as the bond issuance contemplated pursuant to this Offering Circular. Domestic borrowing includes a short-term loan from domestic banks in the amount of MKD 8.2 billion (€132.9 million) and net borrowing from the domestic government securities market in amount of MKD 23.13 billion (€374 million).

Central Budget components

The following table sets out principal revenue and expenditure components of the Central Government Budget for the periods indicated:

Central Government Budget	2016	2017	2018	2019	2020	Budget 2021
	Year ended 31 December					
			(MKD million)			
TOTAL REVENUES	169,356	179,673	188,505	203,911	189,770	212,630
Taxes and Contributions	150,362	157,537	170,994	178,897	173,464	186,282
Tax Revenues (SRA)	1,605	1,430	1,682	1,615	1,187	2,029
Taxes.........................	98,457	103,217	112,774	115,114	105,713	115,953
Personal Income Tax.	14,205	15,263	17,559	18,706	18,625	20,290
Profit Tax..................	10,768	11,353	14,745	11,555	10,497	11,501
VAT..........................	45,949	47,870	49,254	52,059	46,893	52,280
Excises......................	22,215	23,093	25,092	26,087	22,450	25,285
Import Duties............	4,761	5,175	5,604	6,033	6,738	5,968
Other Taxes...............	559	463	520	674	510	629
Contributions	50,300	52,890	56,538	62,168	66,564	68,300
Pension Insurance Contributions	33,814	35,604	37,981	41,923	45,044	36,260
Unemployment Contributions	2,152	2,261	2,426	2,622	2,757	2,790
Health Insurance Contributions	14,334	15,025	16,131	17,623	18,763	19,250
Non Tax Revenues....	12,973	13,396	12,260	18,772	11,389	16,954
Non Tax Revenues (SRA)........................	7,447	8,323	6,756	8,717	6,234	10,603
Profit of Public Financial Institutions.	850	146	169	36	47	254
Administrative Taxes and Charges	1,739	1,652	1,795	1,815	1,361	1,953
Health co-payment....	415	437	442	442	436	455
Other Administrative Taxes.........................	1,886	2,277	2,508	2,552	2,057	2,604
Other Non-Tax Revenues...................	636	561	590	5,210	1,254	1,085
Capital Revenues	1,977	1,316	2,197	2,371	1,846	3,187
Foreign Donations.....	3,648	7,171	2,978	3,871	3,071	6,207
Revenues from repayment of loans....	396	253	76	0	0	0

Source: Ministry of Finance

Consolidated Central Government Budget	Year ended 31 December					
	2016	2017	2018	2019	2020	Budget 2021
	(MKD million)					
TOTAL EXPENDITURES	185,407	196,561	200,071	217,542	243,636	247,568
Current Expenditures	168,433	176,698	187,924	199,729	227,521	223,513
Wages and Allowances	25,958	26,204	26,355	27,751	29,775	31,394
Goods and Services ..	16,702	15,344	14,554	16,266	15,423	21,322
Transfers..................	118,902	126,762	139,323	147,600	174,292	161,319
Transfers (SRA)	1517	1,879	1,779	1,932	4,330	2,213
Social Transfers........	89,005	94,690	100,678	108,216	118,014	120,653
Pensions Fund	54,622	58,084	61,243	65,245	69,004	71,319
Unemployment Benefits	1,216	1,305	1,922	2,497	2,691	2,681
Social Benefits..........	7,571	8,261	8,566	9,654	11,593	12,286
Health Care...............	25,596	27,040	28,947	30,820	34,726	34,367
Other Transfers.........	28,380	30,193	36,866	37,452	51,948	38,453
Interest......................	6,871	8,388	7,692	8,112	8,031	9,478
Domestic	2,593	2,845	2,820	2,534	2,742	3,069
Foreign	4,278	5,543	4,872	5,578	5,289	6,409
Capital Expenditures	16,974	19,863	12,147	17,813	16,115	24,055
Budget Balance	-16,051	-16,888	-11,566	-13,631	--53,866	-34,938-
Financing..................	16,051	16,888	11,566	13,631	-53,866	34,938
Inflow	36,836	34,470	39,706	29,685	95,694	78,291
Other	125	371	287	624	960	800
Foreign Loans...........	30,892	3,464	32,499	8,768	65,247	47,970
Deposits....................	-5,318	10,549	-9,636	1,235	-6,860	6,384
Domestic borrowing .	11116	20086	16,539	19,028	36,347	23,1297
Banking institutions..	2,257	3,013	6,555	5,345	28,350	0
Non-Banking institutions................	8,859	17,073	9,984	13,683	7,997	0
Sell of Shares............	21	0	17	30	0	8
Outflow	20,785	17,582	28,140	16,054	41,828	43,353
Foreign	11,609	8,281	15,928	5,740	26,567	37,234
Domestic	9,176	9301	12,212	10,314	15,261	6,119
Budget Balance as p.p. of GDP	-2.7%	-2.7%	-1.8%	-2.0%	8.1	4.9

Source: Ministry of Finance

The following table shows the functional classification of budget expenditure and outflow for 2021:

Code	Description	Budget 2021 (MKD million)	% of total
701	General Public Services	22,677	8.1%
702	Defence	9,918	3.4%
703	Public Order and Safety	17,152	5.9%
704	Economic Affairs	70,113	24.1%
	General economic, commercial and labour related affairs	4,220	1.4%
	Agriculture, forestry, fishing and hunting	6,682	2.3%
	Fuel and Energy	244	0.1%
	Mining, craftsmanship and construction	438	0.1%
	Transportation	3,415	1.1%
	Communication	1,086	0.4%
	Other industries	553	0.2%
	Other economic affairs	53,474	18.4%
705	Environment protection	1,374	0.5%
706	Housing and community amenities	4,632	1.6%
707	Health	40,819	10.0%
708	Recreation, Culture and Religion	4,350	1.5%
709	Education	28,608	10.0%
710	Social Protection	90,278	31.0%
	Total	290,921	100.0%

Source: Ministry of Finance https://finance.gov.mk/files/budget_na_rsm_za_2020_so_naslovna_0_1.pdf (pg.83-85)

Medium-term Budget Projection

The projected revenues of the Government budget in the next five-year period show a decrease in GDP from 32.6% in 2021 to 31.3% in 2025. As a result, the total expenditures of the consolidated budget in the period 2021-2025 will also decrease from 37.6% in 2021 to 33.4% in 2025. Consequently, and in line with gradual fiscal consolidation, the Government budget deficit will be reduced from 4.9% of GDP in 2021 to 2.0% of GDP in 2025.

For the period between 2021 to 2025, the total revenues for the Government budget and funds is expect to amount to 29.6% of GDP. Revenue projections for medium-term period are based on the realised revenues from prior years and the effects of the planned reforms in tax and pensions.

For the period between 2021 to 2025 the total expenditure of the budget is projected at 33% of GDP. This projection is based on two principles (i) compliance with the revenue projection and economic activities and (ii) the projection of provides continuous fiscal consolidation.

As per the Government's revised Fiscal Strategy for 2021-2023, GDP is projected to grow by 4.1 p.p., 4.6 p.p. and 5.2 p.p. for the years 2021, 2022 and 2023.

Capital projects are projected at €3.2 billion, of which €1.28 billion is allocated to financing the budget funds through donations to IPA funds. EUR 112.8 million has been allocated from international financial institutions and bilateral creditors, including investment grant funds from the Western Balkans Investment Framework. For the period between 2021 to 2025, through IPA, financing of capital projects is projected at €142.1 million, of which €112.8 million are IPA funds.

Taxation

The Macedonian tax system comprises direct taxation, in the form of personal income tax, corporate tax and property tax, and indirect taxation, in the form of VAT excise duties and motor vehicle tax. North Macedonia is party to 49 taxation treaties with other countries, of which 47 are in force and two have not yet been ratified by the other countries.

The supply of goods and services as well as imports are subject to VAT. There is a general VAT rate of 18% and preferential rates of 10% and 5% on certain types of goods and services, such as medical equipment, food, drinking water and hotel services. Based on the type of the goods in question, a specific or combined excise duty may also be applied.

Prior to 2019, North Macedonia had a flat tax system, with a single corporate and personal income tax rate of 10% which had been in effect from 1 January 2008. Although the Republic of North Macedonia introduced progressive tax rates for personal income tax in 2019, a flat tax rate of 10% on all income, except from gambling, has been in place since 1 January 2020.

Certain types of income realised by non-residents are subject to withholding tax, including payments of interest, dividends and royalty payments. However, there is no withholding tax on interest from debt instruments issued and/or guaranteed by the Government, the NBRNM and the commercial banks or other financial institutions acting as agent of the Government.

In addition, income from interest on bonds issued by North Macedonia and local self-government units is exempt from taxation. An exemption from VAT may also be granted where funds are obtained on the basis of a donation agreement concluded between the Republic of North Macedonia and foreign donor organisations if that agreement envisages that no tax will be paid on the donated funds.

On 29 December 2020, the Government adopted a tax reform strategy for the period from 2021 to 2025. The tax reform strategy aims to create an efficient, transparent and modern tax system driven by digitalization.

Value added tax

VAT provided over 45.2% of total tax revenue of North Macedonia in 2019. In 2020, the Law on Value Added Tax was amended once through the Assembly and another through a decree. These amendments instituted a number of changes, including:

- an exemption from VAT on donations of goods and services for the purpose of combating COVID-19 to budget users;
- rolling out processes for issuing electronic invoices;
- an introduction of a preferential rate of 10% for restaurant and catering services; and
- a reduction of the VAT rate for certain craft services.

The latest amendments were adopted in 2020 (“Official Gazette of the Republic of North Macedonia” no. 267/2020).

Excise duty

The new Law on Excise Duties came into force on 1 January 2020 and aligns excise tax practice of North Macedonia with EU directives.

The new Law on Excise Duties institutes a number of changes in alignment with EU directives, including:

- harmonisation of excise payments; stipulating that the payment will be made by releasing the excise goods for free circulation for all categories of excise goods;
- applying excise taxes to certain tobacco products, including water pipe tobacco, chewing tobacco, sniffing tobacco, vapour tobacco products and electronic cigarette fluid;
- the application of excise taxes to electricity, natural gas, coal, coke and lignite; and
- the application of excise taxes to small independent producers of ethyl alcohol and spirits for commercial purposes.

The implementation of the new Law on Excise Duties required the establishment of an Excise Movement and Control System (the "**EMCS**", managed by the Customs Administration) in order to significantly improve the tracking of excise goods and the collection of excise taxes. The EMCS was established on 1 January 2020.

As part of the actions taken in response to the COVID-19 pandemic, on 1 April 2020 the Government adopted a Decree amending the law on excise duties, introducing an increase in the excise of MKD 3 (EUR 0.0487) per litre as a temporary and conditional anti-crisis measure. North Macedonia has the lowest oil prices compared to the region and one of the lowest excise tax rates. The significant drop in oil prices enabled the Government to introduce this measure temporarily until end of 2020 or until the market price of oil stabilises relative to prices in April 2020. This Decree ceased to be in effect from 22 January 2021.

Motor Vehicle Tax

On 18 December 2019 a new law on motor vehicles tax was adopted, by which motor vehicles are subject to payment of tax when: i) produced and placed on the market; ii) repaired and registered as another type of motor vehicle; and iii) imported in the Republic. The law entered into effect on 1 January 2020. Passenger cars are no longer subject to excise duty.

Personal Income tax

Since 2008, the personal income tax rate has remained stable at 10%. A flat tax system was introduced from 1 January 2007 by applying a single corporate and personal income tax rate ("**CIT**" and "**PIT**", respectively) of 12%. The New Law on Personal Income Tax was adopted at the end of 2018 and came into force on 1 January 2019. It introduced progressive tax rates for personal income from labour (10% and 18%), depending on income bracket, and a flat tax rate of 15% on income from capital gains. On 1 January 2020, the new amendments to the Law on Personal Income Tax came into force, changing the progressive personal income tax and flat capital gains tax to a single flat tax rate of 10% for all types of income other than income from gambling (15%). Changes to the taxation of capital gains from shares (which are taxed differently depending on the maturity) and to the taxation of interest earned from saving deposits have been postponed until 2023.

Personal income tax accounted for 15.7% of total tax revenue of North Macedonia in 2019

The *Law on Personal Income Tax* was further amended in 2020 implementing the following rules:

- A relief from advanced monthly payment of personal income tax for self-employed individuals who have suffered damages in their operation due to the spread of the COVID-19 pandemic for the months of March, April, May, June, July, November and December 2020 and for January and February 2021;
- tax exemptions for COVID-19 tests for employees in the amount of up to MKD 9,000 per employee in one year; and

- tax exemptions for paid for private health insurance for one calendar year, for employees and the self-employed, up to one average monthly gross salary in the Republic of North Macedonia, published in January in the current year according to data from the State Statistical Office. Profit tax

Profit tax reforms were adopted in early 2018 and 2019 with the implementation of the *Law on Modifications and Amendments to the Law on Profit Tax*.

Corporate income tax accounted for 9.7% of total budget revenue of North Macedonia in 2019. The corporate income tax rate is 10%.

The *Law on Modifications and Amendments to the Law on Profit Tax* includes as taxable expenditures outstanding claims arising from transfers of funds which, on the basis of their economic purpose, are loans that are not going to be repaid in the same year in which the loan transfer is made, except for loans between two domestic legal entities. The amendments to the Corporate Income Tax Law include transfer pricing regulations and regulations governing related party transactions. The reforms also include new regulations providing that NGOs are taxed only on gross income generated by business activity. Under the latest amendments to corporate income tax practice, limitations on tax loss carry-forwards for losses recognised under CIT regulation (CIT law 2009-2014). With the *Law on Modifications and Amendments to the Law on Profit Tax*, tax penalty provisions were harmonised with the new *Penalty Law.*

The *Law on Modifications and Amendments to the Law on Profit Tax* also includes an exemption of corporate income tax monthly payments for entities that are affected by the COVID-19 pandemic during March to July 2020, November and December 2020 and January and February 2021. Carrying forward of losses was extended from three years in duration to five years.

An additional tax relief amendment included an increase in the threshold for annual turnover for companies that are not taxpayers from MKD 3 million to MKD 5 million. The threshold for annual turnover for companies that can choose between paying tax on gross income or corporate income tax also increased from MKD 6 million to MKD 10 million.

Budget of the Municipalities

Municipalities are independent authorities responsible for preparation and execution of their own budget. The budget process and financing of municipalities is regulated by the Organic Budget Law, which prescribes all principles and procedures of budget preparation and the execution of the municipalities budget, and the Law on Financing of the Units of Local Self-Government (the “Law on Local Financing”), which prescribes the system and sources of financing, as well as competences and responsibilities of municipality authorities. The law on budget was amended during the state of emergency, in response to COVID-19, to allow budget users to reallocate up to 70% of their budget. See “*Macedonian Economy—Recent Developments— Actions taken in response to the COVID-19 pandemic*”.

The current sources of income for municipalities are property tax, tax on inheritance and gifts, sales tax on real estate, taxes on specific services, utility fees, fees for the regulation of land and benefits from communal activity. The municipalities are also entitled to 3% of the personal income tax of most of their citizens, and 100% of the personal income tax of their citizens who earn a living by performing specified crafts.

Amendments to the Law on Local Financing adopted in the period from 2011 to 2013 have expanded opportunities for municipalities to seek new sources of revenues or expand on existing ones, including reforms to revenues relating to water and mineral rights, and the institution of autonomous tax revenues, resulting in a steep increase to municipality revenue in the past seven years.

In addition to revenue generated internally, municipalities receive resources from the Central Budget in the form of block grants specifically delegated to the fields of education, child care, culture and firefighting protection, VAT grants (general grants) and capital grants for infrastructure projects. The calculation of revenues from VAT to be transferred to municipalities is set by law and the criteria for distribution are split between a fixed amount and a variable amount calculated on the basis of population as well as other criteria established in the relevant decree adopted by the Government on an annual basis for the following year.

During 2019, total VAT revenues transferred to the municipalities amounted to MKD 2.2 billion. The percentage of VAT revenues transferred from the Central Budget to the municipalities in the form of general grants was 4.5% in 2019, which remained level with 2018, while the percentage of VAT revenues transferred from the Central Budget was 4.5% in 2019. These VAT revenues are allocated based on a fixed sum of MKD 2.2 billion to each municipality, along with a variable component of which 65% is based on the number of inhabitants, 27% on the area of the municipality and 8% on participation in the total number of settlements.

During 2019, total VAT revenues transferred to the municipalities amounted to MKD 2.2 billion, while MKD 16.9 billion was transferred for block grants. During 2018, total VAT revenues transferred to the municipalities amounted to MKD 2.2 billion, while MKD 15.9 billion was transferred for block grants. During 2017, total VAT revenues transferred to the municipalities amounted to MKD 2.1 billion, while MKD 14.9 billion was transferred for block grants.

For 2019, all municipalities and the city of Skopje were also financed with block grants from the Central Budget. According to the 2020 Budget, total planned transfers to the municipalities will amount to approximately MKD 21.3 billion. Out of these transfers, the municipalities will receive approximately MKD 2.3 billion in VAT grants and approximately MKD 19 billion in block grants.

Any borrowing by local municipalities, including for financing government deficit or capital expenditure requirements must obtain prior consent by the Government, on the basis of an opinion by the Ministry of Finance. Any negotiations of loan agreements by municipalities pursuant to the Public Debt Law can only be started with the Government's prior consent.

Organic Budget law

On 5 January 2021, the Government approved a new draft organic 2021 budget law and submitted it to the Parliament of the Republic of North Macedonia. The law contains provisions regarding fiscal rules, and establishment of a fiscal council; publishing a register of public entities; guidelines for the fiscal strategy; improving the process of medium-term fiscal strategy; improving public investment management; regular monitoring of the budget execution, and establishing an integrated information system for public financial management.

MONETARY AND FINANCIAL SYSTEM

The National Bank of the Republic of North Macedonia

The NBRNM or the National Bank is the central bank of the Republic of North Macedonia. The legal status of the NBRNM and its role as an independent central bank is guaranteed by the Constitution and reinforced by the Law of the National Bank of the Republic of North Macedonia (the "**NBRNM Law**"). The NBRNM Law formally sets out the role of the National Bank and confers upon it the authority to operate independently. The National Bank and the Ministry of Finance have regular meetings to coordinate monetary and fiscal policy issues, financial stability issues, along with other matters within the scope of activity of both institutions in order to coordinate policies for a stable and sustainable macroeconomic and financial regulatory environment.

Monetary policy

Pursuant to the NBRNM Law, the primary objective of the National Bank is to maintain price stability in the Republic of North Macedonia. As a result, the national monetary policy is geared towards maintaining low and stable inflation and creating improved conditions in which businesses can continue to grow and operate. To this end, since October 1995 the National Bank has pegged the nominal exchange rate of the Denar against the Euro (previously against the Deutsche Mark). This *de facto* fixed exchange rate has played a major role in stabilising inflationary expectations, permitting the National Bank to maintain low and stable inflation for more than two decades. Average annual inflation from 2011 to 2020 amounted to 1.4%, which is close to the average level of inflation in EU countries. The National Bank also seeks to maintain a stable, competitive and market-based financial system in conformity with the principles of free competition and an open market economy.

Since 2015, Macedonian international reserves have increased by 49% through 2020, ranging from a low of €2.3 billion at end of 2015 to a high point of €3.4 billion in December 2020. This relatively stable reserve position has allowed the National Bank to maintain an accommodative monetary policy stance over the period, leading to the stabilisation of expectations and increased confidence among economic entities. From 2018 until the beginning of 2020, the National Bank conducted purchases of foreign currency on the foreign exchange market, constituting the main factor behind the accumulation of foreign reserves. Since the outbreak of the COVID-19 pandemic, which led to a lower foreign currency inflow, the National Bank has intervened twice in February 2020, selling small amounts of foreign currency on the foreign exchange market with net sales of €470 million. The IMF RFI disbursement in April 2020 along with the Government borrowing from the international market by issuing a eurobond in June 2020 and the withdrawal of the EC loan in October 2020 all supported international reserves during 2020. At the end of 2020, the Republic's international reserves increased by approximately €100 million compared to 2019. For further information, see "*Risk Factors—The Macedonian economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on the economic growth of North Macedonia and its ability to service its public debt"* and "*Indebtedness—External General Government Debt—Eurobond issuances and external loans*".

The current operational framework of monetary policy is based on four primary pillars:

- Managing structural excess liquidity in the longer run with the issuance of CB bills through monthly auctions (at the beginning of the reserve requirement period);
- Managing short-term excess liquidity, via overnight and seven-day deposit facilities;
- Providing liquidity on a weekly basis, by conducting regular auctions of repo transactions; and
- Utilising an interest rate corridor, set by the interest rate of the overnight credit (upper limit) and the interest rate of overnight deposit facility (lower limit).

The NBRNM kept its policy rate unchanged at 3.25% in 2015. Banks' credit activity, low inflation and an adequate level of foreign reserves contributed to solid economic growth. Economic fundamentals were assessed as strong throughout the year. However, risks faced by the domestic economy increased in tandem with rising global economic risk. As a result, the National Bank adopted a wait and see approach with respect to the main policy rate. Domestic political uncertainty and the escalation of the Greek debt crisis in June comprised the main risks in 2015. To counter these risks, in June 2015 the National Bank introduced measures, in effect through December 2015, to prevent capital outflows to Greece and to minimise possible contagion risks. The preventive measures restricted capital outflows from residents of North Macedonia to Greek entities. Further, Macedonian banks were required to withdraw all loans and deposits from Greek banks, regardless of the agreed maturity, other than current correspondent accounts with those banks. These measures, along with the relative domestic political stability and improvement of the situation in Greece, contributed towards stabilising expectations and restoring the confidence of the private sector.

In light of on-going uncertainty and the resulting impact on the expectations of economic participants regarding the amount, currency and term structure of their savings in the banks, the National Bank introduced new protective measures in the second half of 2015. In August 2015, the National Bank decreased the reserve requirement ratio on household deposits in MKD with a contractual maturity over one year from 8% to 0% to support the strength and use of Macedonian Denars in the deposit base and savings with longer maturities. In December 2015, the National Bank introduced additional preventive macro-prudential measures in order to further support financial and economic stability by slowing the growth of longer-term consumer credits, and supporting corporate lending. At the end of 2015, the favourable reserve requirement to support lending to net exporters and domestic producers of electricity was extended for an additional two years.

In 2016, domestic political turmoil and speculation about the stability of the exchange rate and the banking system impaired confidence, especially among consumer households. The consequences were most apparent on the currency exchange market and household deposits in banks. Outflows of deposits from the banking system occurred in April and May 2016, with a concomitant increase in a preference for holding foreign currency cash. As a response to the shock during this two-month period, the National Bank intervened with a net sale of foreign currency and an increase in its policy rate from 3.25% to 4% in May 2016. Given the decrease of liquidity in the banking system, primarily as a result of the National Bank's interventions on the foreign exchange market and expectations for lower demand for CB bills, the total amount offered on the CB bills auction in May 2016 was decreased by MKD 3 billion to MKD 22 billion. The National Bank continued to assess the economic fundamentals as sound in the absence of major imbalances in the economy. In order to further encourage the use of Macedonian Denar-denominated deposits in the domestic banking system, in May 2016, the National Bank also increased the reserve requirement ratio for banks' liabilities in domestic currency with a foreign exchange clause from 20% to 50%. In addition, the National Bank improved the requirements for placements of foreign currency deposits of domestic banks in the National Bank, offering higher interest rates on foreign currency deposits against negative interest rates prevailing on the international market.

These measures by the National Bank led, in a relatively short timeframe, to the stabilisation of expectations and increased confidence among economic entities. The beginning of June brought the first signs of normalisation in both areas where the political crisis had had a direct impact: deposits in the banking system and the foreign exchange market. These favourable conditions continued until the end of the year, spurring continuous growth in household deposits and National Bank net purchases of foreign currency. Against this favourable backdrop, the National Bank initiated a normalisation of monetary policy. The placement of foreign currency deposits with the National Bank was no longer possible as of the end of October, and at the beginning of December, the National Bank cut the policy rate from 4.00% to 3.75%. Given the increase in structural liquidity of the banking sector, at the December auction, the National Bank increased the supply of CB bills from MKD 22 billion to MKD 23 billion. In December 2016, changes were made to the calculation methodology for bank capital adequacy, allowing the full implementation of new requirements regarding the structure and quality of own funds, as prescribed by Basel III and the CRR (European Regulation 575/2013).

In January and February 2017, the National Bank adjusted its policy rate from 3.75% to 3.25%, bringing it back to the pre-crisis level, and further increased the supply of CB bills from MKD 23 billion to MKD 25 billion. In February, the National Bank adopted several decisions arising from the October 2016 amendments to the Banking Law, which enabled a high level of compliance with Basel III and the relevant European regulations (CRD IV and CRR). With these regulations, capital buffers were introduced, which further strengthened the solvency of the banking system. Given the increased liquidity, the National Bank increased the supply of CB bills by MKD 5 billion to MKD 30 billion at the March 2017 auction. In response to a decrease in bank liquidity, the National Bank decreased the amount offered to MKD 27.5 billion and MKD 25 billion at the July 2017 and August 2017 auctions, respectively. During 2017, the National Bank intervened on the foreign exchange market with net purchases of foreign currency; foreign reserves remained adequate throughout the year. Inflation during this period was moderate and bank lending strengthened, both supporting the economic growth of the country.

2018 was characterised by an improved domestic environment resulting from a recovery in economic activity, low and stable inflation and credit flows continuing to register solid growth, while deposit growth accelerated, with favourable changes in maturity and currency structure, thus indicating an improvement in economic sentiment and strengthened confidence. The sound fundamentals of the economy contributed towards maintaining a favourable balance of payments position, with a low current account deficit and significant flows of foreign investments. These conditions led to significant purchases of foreign currency on foreign exchange markets by the National Bank in 2018. Due to a stable inflation environment, a favourable balance of payments position and the stabilisation of economic sentiment, the National Bank gradually cut its policy rate on three occasions, by a total of 0.75% to 2.50%. In December 2018, a strategy to strengthen confidence in and increase use of Macedonian Denars was adopted, with measures aimed at further increasing the use of and reliance on Macedonian Denars in the economy.

Positive economic developments continued in 2019. The balance of payments position during the year and further favourable movements in deposits of Macedonian banks were the most significant factors, enabling the National Bank to intervene continuously on the foreign exchange market and to reach the historically highest amount of foreign currency purchases on the foreign exchange market in 2019. This environment, with stable expectations and enhanced confidence, allowed for further monetary policy easing. In March 2019, the National Bank cut the policy rate by 0.25% to 2.25%. Inflation during the year remained stable at a low level. Bank lending increased, supported by an accommodative monetary policy and banks' improved perceptions of risks.

According to data collected by the National Bank, interest rates on total granted loans (Denar and foreign currency) decreased from 7.06% in January 2015 to 4.6% in December 2020, and interest rates on total received deposits (Denar and foreign currency) decreased from 2.48% in January 2015 to 0.95% in December 2020.

In 2020, the National Bank maintained the accommodative stance and further cut its policy rate, by a total of 0.75% to a historically low level of 1.5%, supported by low inflation and adequate reserve buffers. This rate decrease sought to alleviate financing terms for the private sector to counter the effects of the COVID-19 pandemic. In addition, in order to mitigate any adverse effects on the economy caused by the COVID-19 pandemic, the National Bank reintroduced the non-standard reserve requirement measure, which lowers the banks' Denar reserve requirement, thus supporting banks' grants of newly approved and restructured loans to companies that will be most affected by the COVID-19 pandemic and the measures for its containment. Other measures, including broadening the list of collateral accepted by the National Bank for provision of Denar liquidity to commercial banks, which allowed for a more flexible regulatory framework, were also taken to enable banks to focus on providing credit support to corporates and households, and to maintain the quality of banks` loan portfolios. Aiming to inject additional liquidity into the system and to support the national economy during the COVID-19 pandemic, the total amount of CB bills offered via auction in April 2020 was decreased by MKD 8 billion to MKD 17 billion, and was further decreased to MKD 10 billion in May 2020. In August 2020, the NBRNM reactivated auctions of foreign exchange deposits to give domestic banks an opportunity to place their foreign exchange assets in short-term and secure instruments of the National Bank. The accommodative stance of the monetary policy was reflected in the cost of borrowing for the private sector, visible in the decline of the Denar lending interest rates applied to households and enterprises, from 6.6% and 4.3%, in December 2019 to 6.2% and 3.8% in December 2020, respectively.

As a result of the COVID-19 pandemic, the NBRNM changed the existing by-law on credit risk management to temporarily reduce the debt burden of banks' borrowers between March and September 2020. See *"—Basel III standards—Credit and Risk Standards*". These amendments were followed by a Decree, adopted by the Government, which specified the procedure that banks should apply when announcing and offering changes to the contractual terms of credits approved between March and September 2020. In April 2020, banks responded with public offers to clients (natural persons) for approval of "grace-periods" in the repayment of loans for a period of three to six months. During September 2020, in accordance with regulation, banks altered the contractual terms for credits for the clients that were most affected by the COVID-19 crisis. As of 30 September 2020, around 43% of performing loans to non-financial sector contained amended contractual terms. However, only around 7% of performing loans needed further changes of the credit terms. After the expiration of the moratorium on payment in the first months of 2021, some materialization of credit risk in banks' credit portfolios is expected.

Starting since 1 January 2021, a new Decision on liquidity risk management was enacted, which, among other things, stipulates an obligation for banks to calculate and maintain the so-called Liquidity Coverage Ratio, in accordance with the requirements of Basel III.

The ECB supported the NBRNM during the COVID-19 crisis by approving a bilateral repo line arrangement in August 2020, worth up to €400 million. In February 2021, the repo line was extended and will remain in place until March 2022. To date, the NBRNM has not used any funds from the approved repo line, given the maintenance of adequate levels of both Denar and foreign currency liquidity of the banking system, with a noticeable upward trend of the banks' liquid assets in recent months.

On 26 February 2021, the NBRNM initiated a temporary limitation on dividend distribution to shareholders of banks in North Macedonia. This limitation is expected to be in place until the end of 2021.

Key monetary policy tools

The following table sets out the EUR/MKD period-end and average exchange rates for the periods indicated:

	As at and for the year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
Average..	61.60	61.58	61.51	61.51	61.67
End of period	61.48	61.50	61.50	61.49	61.69

Source: National Bank of the Republic of North Macedonia

The following table sets out the breakdown of loans and deposits of non-financial entities by currency for the periods indicated:

	As at 31 December									
	2016		**2017**		**2018**		**2019**		**2020**	
	(MKD billion, unless indicated otherwise)									
Loans of non-financial entities by currency										
MKD..................................	160	56%	175	58%	192	60%	199	58%	209	58%
MKD with FX clause	69	24%	73	24%	80	25%	91	27%	95	27%

	As at 31 December									
	2016		2017		2018		2019		2020	
	(MKD billion, unless indicated otherwise)									
Foreign currency................	56	20%	53	18%	51	15%	51	15%	53	15%
Total..................................	285	100%	300	100%	322	100%	341	100%	344	100%
Deposits of non-financial entities by currency										
MKD..................................	193	59%	204	59%	235	61%	261	62%	270	61%
MKD with FX clause	1	0.3%	2	0.5%	1	0.2%	0	0.1%	1	0.2%
Foreign currency................	132	41%	137	40%	149	38.8%	158	37.6%	172	38.9%
Total..................................	327	100%	343	100%	385	100%	419	100%	443	100%

Source: National Bank of the Republic of North Macedonia

The following table sets out the breakdown of loans and deposits of non-financial entities by sector for the periods indicated:

	As at 31 December									
	2016		2017		2018		2019		2020	
	(MKD billion, unless indicated otherwise)									
Loans of non-financial entities by sector										
Enterprises..........................	154	54%	158	53%	165	51%	168	49%	170	48%
Households.........................	129	45%	141	47%	156	48%	172	50%	186	52%
Other clients.......................	1	0.4%	1	0.4%	2	0.5%	1	0.4%	2	0.5%
Total..................................	285	100%	300	100%	322	100%	341	100%	357	100%
Deposits of non-financial entities by sector										
Enterprises..........................	87	27%	89	26%	98	25%	112	27%	123	28%
Households.........................	217	67%	231	67%	253	66%	273	65%	285	64%
Other clients....................... %	22	7%	22	7%	34	9%	35	8%	35	8%
Total.................................. %	327	100%	343	100%	385	100%	419	100%	443	100%

Source: National Bank of the Republic of North Macedonia

Reserve requirements

The reserve requirement is a standard monetary policy instrument used by the NBRNM to influence the demand for liquidity in the banking system. Since 2009, the NBRNM has undertaken certain changes in the reserve requirements to address structural issues in the Macedonian economy and banking system, including policies that support the use of Macedonian Denars and broaden the scope of bank funding sources. The NBRNM has maintained its practice of differentiated reserve requirement ratios by currency and by maturity of liabilities. From 2013 to 2019, the NBRNM relied on the utilisation of the reserve requirement as a tool for effecting macro-prudential measures. These measures targeted the corporate sector in order to facilitate an increase in credit volume as well as an improvement of credit terms for net exporters and domestic electricity producers. Due to the downward trend in domestic economic activity since the outbreak of the COVID-19 pandemic, the NBRNM lowered the reserve requirement base for newly extended and restructured credits to corporates within the sectors that are most affected by the pandemic. This measure was implemented on 15 April 2020.

Open market operations and other instruments

CB bills are the primary monetary policy instrument of the NBRNM. CB bills are used to assist the NBRNM in managing and absorbing excess liquidity in the banking system as part of monetary sterilisation operations. CB bills are short-term discounted securities sold on the local market via auction. Auctions can be carried out on a “volume tender” or “interest rate tender” basis. Currently, the NBRNM conducts auctions of 28/35-day CB bills through volume tenders with a predefined interest rate of 1.5%.

Repo operations are used for short-term liquidity management, and CB bills, Treasury bills and Government bonds may be used as collateral for such operations. Repo transactions are conducted on a weekly basis, with auctions conducted through volume tenders.

In August 2020, the NBRNM reactivated auctions of foreign exchange deposits to allow the domestic banks to place one and three month foreign exchange deposits with the National Bank. The auctions are held on a monthly basis, with predefined interest rates.

In April 2012, the NBRNM introduced a deposit facility, to facilitate allocation of excess liquidity by banks. These facilities are available at a bank’s initiative, with the overnight facility available each working day, and the seven-day deposit facility available weekly on Wednesday. The current interest rate on an overnight facility is 0.15% and 0.3% on a seven-day facility.

Other less frequently used instruments include overnight credit and outright operations. Outright operations are open market operations which entail the outright purchase or sale of securities on the secondary market. The main function of this instrument is structural management of the liquidity in the banking system.

Money supply

Over the period from 2015 to 2020, the average annual growth rate of money supply amounted to 7.7%. In response to changing economic trends and varying levels of capital inflows, there was volatility in the money supply, as reflected in the pace and structure of monetary growth.

During 2016, M4 continued to grow, but at a slower pace. The growth of M4 was consistent with the recovery of economic activity, positive shifts in the labour market and an increase in disposable income, as well as a favourable external economic position. However, during 2016, the dynamics of money supply were strongly influenced by factors of a non-economic nature (i.e., the political crisis), which led to decelerated annual growth in deposits. As at December 2016, M4 grew by 6.2% year on year, driven by an increase in domestic currency deposits (5.2% year on year), while domestic currency deposits increased by 7.4%. The share of long-term deposits in M4 was stable throughout the year.

M4 continued to increase during 2017, but was slightly slower compared to the previous year. The increase of the broad money supply was in line with favourable labour market developments, such as decreasing unemployment and greater annual increases in average monthly wages, as well as a relatively favourable external economic position. As at December 2017, M4 had grown by 5.1% year on year, driven by an increase in Denar deposits (5.8% year on year) while foreign currency deposits had grown by 3.9% compared to the same period in 2016. The share of Denar deposits remained at approximately 54.7% of M4 as at 31 December 2017. Long-term deposits continued to support M4 growth.

The uncertainty arising from the political instability in 2016 and 2017, that had resulted in economic contraction, increased restraint of domestic and foreign investors and temporary foreign currency preferences for household savings, stabilised in 2018, during which year, there was a significant acceleration of M4 growth due to the positive economic effects of greater political stability and an increase in economic activity. As at December 2018, M4 had grown by 11.8%, year on year, driven by a 14.9% increase in Denar deposits, while foreign currency deposits had grown by 8.1% during 2018. The share of Denar deposits in M4 further increased to 56.3% as of December 2018. Long-term deposits continued to support M4 growth.

M4 continued to increase during 2019, but at a slightly slower pace. As at 31 December 2019, M4 had increased by 9.3% year on year, driven by an increase in domestic currency deposits (11.4% year on year), while foreign currency deposits had grown by 5.4%. The share of Denar deposits in M4 continued to increase from 56.3% at the end of 2018 to 57.4% as at 31 December 2019, while the share of long-term deposits in M4 was stable throughout the year.

During 2020, M4 continued to increase and, as of 31 December 2020, M4 had increased by 6.9% compared to the end of 2019. Denar deposits continued to drive the increase of broad money supply (annual growth of 3.4%), while foreign currency deposits had grown by 9.5% as of the same date. The share of Denar deposits in M4 decreased slightly from 57.4% as at 31 December 2019 to 55.5% as at 31 December 2020.

The following tables reflect the components of money supply for the periods indicated:

	Year end 2016	**Annual Change (December 2016/ December 2015)**
	(MKD million)	*(%)*
Currency in circulation	28,193	7.2
Demand deposits	86,641	11.0
M1	114,834	10.0
Short-term Denar deposits	51,085	-2.6
Short-term Foreign currency deposits	104,347	6.9
M2	270,266	6.2
Long-term Denar deposits	55,247	4.4
Long-term Foreign currency deposits	29,199	9.2
M4	354,712	6.2

	Year end 2017	**Annual Change (December 2017/ December 2016)**
	(MKD million)	*(%)*
Currency in circulation	29,968	6.3
Demand deposits	96,288	11.1
M1	126,256	9.9
Short-term Denar deposits	47,834	-6.4
Short-term Foreign currency deposits	106,566	2.1
M2	280,656	3.8
Long-term Denar deposits	60,054	8.7
Long-term Foreign currency deposits	32,222	10.4
M4	372,931	5.1

	Year end 2018	**Annual Change (December 2018/ December 2017)**
	(MKD million)	*(%)*
Currency in circulation	32,233	7.6

	Year end 2018	Annual Change (December 2018/ December 2017)
	(MKD million)	*(%)*
Demand deposits	117,616	22.1
M1	149,849	18.7
Short-term Denar deposits	49,487	3.5
Short-term Foreign currency deposits	114,501	7.4
M2	313,837	11.8
Long-term Denar deposits	67,501	12.4
Long-term Foreign currency deposits	35,477	10.1
M4	416,814	11.8

	Year end 2019	Annual Change (December 2019/ December 2018)
	(MKD million)	*(%)*
Currency in circulation	36,108	12.0
Demand deposits	139,580	18.7
M1	175,688	17.2
Short-term Denar deposits	49,042	-0.9
Short-term Foreign currency deposits	120,160	4.9
M2	344,889	9.9
Long-term Denar deposits	72,612	7.6
Long-term Foreign currency deposits	37,910	6.9
M4	455,411	9.3

	Year end 2020 (MKD million)	Annual Change (December 2020/ December 2019) (%)
Currency in circulation	43,696	21.0
Demand deposits	160,765	15.2
M1	204,461	16.4
Short-term Denar deposits	44,042	-10.2
Short-term Foreign currency deposits	134,950	12.3
M2	383,453	11.2
Long-term Denar deposits	65,332	-10.0
Long-term Foreign currency deposits	38,199	0.8
M4	486,984	6.9

Source: National Bank of the Republic of North Macedonia

Interest rates

The NBRNM influences market interest rate movements through its policy rate, which is the central bank (CB) bills rate. The policy rate remained unchanged at 3.25% from July 2013 until May 2016, when it was increased to 4.0%. The stabilisation of macroeconomic conditions at the end of 2016 allowed the NBRNM to cut the policy rate from 4.0% to 3.75%. From 2017 to 2019, the NBRNM gradually reduced the policy rate to 3.25% in 2017, 2.5% in 2018 and 2.25% in 2019. In 2020, the NBRNM further reduced the policy rate to its historical low of 1.5%.

The period from 2015 to 2020 was characterised by a decrease in interest rates on the bank credit and deposit interest rates as a reaction to the more relaxed monetary policy stance and generally more stable macroeconomic outlook. The Denar lending interest rate decreased from 7.1% in December 2015 to 5.0% in December 2020, and the Denar deposit rate decreased to 1.3% in December 2020 from 2.6% at the end of 2015. Denar lending interest rates applied to households and enterprises also decreased during this period, from 7.9% and 6.6%, in December 2015 to 6.2% and 3.8% in December 2020, respectively. Denar deposit rates of households and enterprises decreased to 1.3% and 1.4% in December 2020 from 2.6% and 2.3% at the end of 2015, respectively.

Banking supervision

The NBRNM is the regulatory and supervisory body for banks and savings institutions in North Macedonia. Through its supervision, the NBRNM assesses the soundness, stability, risk profile and compliance of banks' operations with the regulations. The NBRNM banking supervisory function plays a crucial and anticipatory role in identifying weaknesses that may emerge within a licensed institution. Its primary purpose is to prevent the institution from becoming a potential threat to the stability of the banking system and the overall financial stability in the Republic.

The June 2007 Banking Law (and subsequent amendments, particularly in October 2016), which follows the European Capital Requirement Directive and international best practices in the field of banking and banking supervision, forms the basis for the NBRNM's supervision, and sets the regulatory requirements for the banks. The Banking Law, as amended, provides for:

- *Licensing criteria*. This includes strengthening the "fit and proper" criteria for licensing shareholders with qualified holdings in a bank, members of the Board of Directors and members of the Supervisory Board.

- *Corporate governance standards*. The Banking Law and the appropriate bylaw regulate the governing bodies of a bank, as well as the role and the scope of activities of the internal audit, risk management and the compliance functions. The provisions incorporate international standards and best practices (European Directive requirements and the new Basel standards on corporate governance), especially requirements for the members of banks' supervisory and management body.

- *Risk management systems*. According to the Banking Law, the banks are obliged to establish and maintain an appropriate risk management system that should include credit risk, liquidity risk, interest rate risk, currency risk, market risk, concentration risk, operational risk, as well as all other material risks that banks are exposed to in their operations.

- *Liquidity ratios*. In line with the Basel standards and relevant EU requirements, the liquidity coverage ratio was introduced in 2020, with banks being required to maintain 100% LCR starting from January 2021. The new regulation provides for further alignment with international standards and best practices. As a result, the 30 and 180 day liquidity ratios will no longer be prudential requirements for domestic banks.

- *Capital requirements*. Capital adequacy rules closely align with international standards, both in terms of the quality and quantity of the positions included in banks' own funds, providing for a strong capital base. This has given banks a high level of resistance during stress periods. These rules have also provided for a more flexible approach to determining the necessary capital adequacy level for each bank, taking into account its size, complexity and risk profile.

- *Introduction of capital buffers and leverage ratios*. According to the October 2016 amendments to the Banking Law, starting in March 2017, four capital buffers requirements were introduced: the capital conservation buffer, the capital buffer for systemically important banks, the counter-cyclical capital buffer and the systemic risk capital buffer. See "*—Basel III standards*". Additionally, in line with the EU requirements applicable at the moment of introduction of the leverage ratio in the domestic banking system, banks are required to determine and monitor their leverage risk level without a minimum level of leverage ratio being prescribed by the NBRNM.

- *Corrective measures*. The Banking Law provides for a broad range of corrective measures that the NBRNM may take.

In order to prevent money laundering and the financing of terrorism, the NBRNM regulates banks' anti-money laundering programmes, which are mandatory for banks and savings institutions. During on-site examinations, the NBRNM performs detailed assessments of the money-laundering and terrorist financing risk and broader compliance with this regulation. The process of harmonization of the AMLCFT Law with the AML 5th Directive is underway.

Macedonian banks prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), which accounting methodology stipulates criteria for classification, measurement, recognition and disclosure of the balance sheet items of banks. This contributes to increased accuracy and objectivity in banks' financial statements, thereby increasing the transparency of Macedonian banks.

The 2018 IMF-World Bank Financial Sector Assessment Programme ("**FSAP**") mission concluded that the NBRNM has continued to strengthen its supervisory and regulatory framework, while enhancements have largely been driven by international developments and new regulatory standards (e.g., Basel, European Union), which the NBRNM has implemented in a timely and effective manner. According to the detailed assessment of the Basel Core Principles, the Republic of North Macedonia, was found to have a sound basis for effective banking supervision, a legislative base that is strong and comprehensive, supervisory approach that is risk-based, a well-developed onsite and offsite supervisory regime, and a well-structured supervisory function of the NBRNM, performed by knowledgeable and dedicated persons.

In its supervisory function, the NBRNM uses a risk-based approach. This is a continuous process, which feeds into the development and maintenance of a bank's risk profile. The NBRNM quantifies banks' exposure to different risks and determines the sufficiency of banks' procedures and systems to identify, assess, monitor and control risks. The NBRNM generally focuses on material risks to which banks are exposed. When determining a bank's risk profile, the NBRNM estimates its risk exposure level and the manner in which it manages risks, producing an aggregate risk profile using defined risk matrices.

The NBRNM supervisory framework is based on: (a) the supervisory review and evaluation process ("**SREP**") and (b) the capital review process ("**CRP**"), which includes the internal capital adequacy assessment process ("**ICAAP**"). The main outputs of the SREP are risk profiles of the banks in North Macedonia, but the SREP also provides input in establishing the supervisory strategy and the CRP. The supervisory strategy is the plan for future supervisory activities, including on-site examinations. The higher the overall risk profile of a bank, the more intensive the supervisory activity that is undertaken by the NBRNM. The primary goal of the CRP is to ensure that banks have adequate levels of capital vis-à-vis their risk profile and have adequate ICAAPs. Any significant differences in the NBRNM's risk assessment and the ICAAP assessment are subject to discussion with the banks. Starting in 2020, Macedonian banks are required to develop and implement the Internal Liquidity Adequacy Assessment Process ("**ILAAP**"), which will be incorporated in the NBRNM's SREP activities. The ILAAP reflects banks' internal liquidity needs and should be updated on an annual basis. Banks are required to submit the results of this process to the National Bank, no later than May each year. Due to the COVID-19 pandemic, banks were allowed to submit their ILAAP for 2020 by 30 September 2020.

Credit risk is the primary focus of on-site supervisory examinations, with particular focus on the measurement of credit risk, suitability of the impairment and provisioning for credit losses. In addition, examinations assess the adequacy of the systems relating to liquidity risk, interest rate risk and operational risk management as well as information security, systems for anti-money laundering and the prevention of the financing of terrorism, and profitability and corporate governance.

Cross-border co-operation

The NBRNM cooperates with foreign supervisory authorities under bilateral Memoranda of Understanding ("**MoUs**") and/or through supervisory colleges.

In April 2015, the European Banking Authority ("**EBA**"), following its equivalence assessment of the NBRNM's confidentiality or professional secrecy regime at the end of 2014, confirmed the NBRNM's compliance with the EU's Capital Requirements Directive and included the NBRNM in its recommendations on equivalence of non-EU authorities' confidentiality regimes. On the basis of this assessment, in October 2015, the EBA signed a Memorandum of Cooperation with six banking supervisory authorities in the region, i.e., the National Bank of the Republic of North Macedonia, the National Bank of Serbia, the Bank of Albania, the Central Bank of Montenegro, the Banking Agency of the Federation of Bosnia and Herzegovina and the Banking Agency of the Republika Srpska, in order to establish a framework for cooperation and information exchange between the EBA and the signatory supervisory authorities. Based on the provisions of the Memorandum of Cooperation, the NBRNM has established close relation with the EBA, through the submission of its opinions on the draft documents prepared by the EBA, as well as participation in meetings and training seminars organised by EBA.

In July 2017, the ECB, in connection with its prudential supervision of credit institutions in the Euro-zone, initiated a process to enter into an memorandum of understanding with the NBRNM to ensure an effective exchange of supervisory information in order to promote the integrity, stability and efficiency of the supervised entities that fall within the remit of both authorities (EU parent banks and their subsidiaries in the Republic of North Macedonia). In November 2018, the ECB and the NBRNM signed the final version of the Memorandum of Understanding for the purpose of performing their respective supervisory powers over supervised entities, to the extent permitted by law, and in accordance with the Core Principles for Effective Banking Supervision.

The ECB supported the NBRNM during the COVID-19 crisis by approving a bilateral repo line arrangement in August 2020, worth up to €400 million. This provides the NBRNM with access to euro liquidity for the first time, which is determined by the provision of adequate collateral. In February 2021, the repo line was extended and will remain in place until March 2022. To date, the NBRNM has not used any funds from the approved repo line, given the maintenance of adequate levels of both Denar and foreign currency liquidity of the banking system, with a noticeable upward trend of the banks' liquid assets in recent months.

Regulatory developments

The most significant amendments and improvements in banking regulations over recent years pertain to the adoption of the Basel III approaches to capital adequacy and liquidity, coupled with new approaches to risk and credit risk management. This was especially the case with the relevant by-laws enacted in the last four years (2017-2020), which enabled a high level of compliance with the EU Capital Requirements Regulation and Directive ("**CRR/CRD IV**") The following by-laws were adopted by the Council of the NBRNM between February 2017 and December 2020:

- A methodology for identifying systemically important banks, using several quantitative indicators grouped into four criteria of systemic importance: size, substitutability, interconnectedness and complexity. This methodology is in line with the requirements of the Basel Committee on Banking Supervision and the EBA. Based on this methodology, starting from April 2017, the NBRNM identifies systemically important banks on an annual basis and determines the level of capital buffer that each bank will have to achieve in the course of a one-year period;

- A methodology for the preparation of a recovery plan by systemically important banks, setting out the content of such recovery plan, namely an obligation for systemically important banks to develop and submit to the NBRNM a recovery plan, which is an initial step towards implementation of the Bank Recovery and Resolution Directive (BRRD);

- A methodology for determining the countercyclical capital buffer, which prescribes the manner in which the NBRNM will determine such rate for exposures in the country, and the manner in which banks are required to calculate institution-specific countercyclical capital buffers;

- A methodology for determining the maximum amount distributable to holders of CET1 capital instruments and Additional Tier 1 capital instruments, depending on the achievement of the combined capital buffers;

- A methodology for determining the leverage ratio, being the ratio of capital (Tier 1 capital) to total exposure. Banks are required to determine and monitor their leverage risk level without a minimum level of leverage ratio being prescribed by the NBRNM. If a bank has a low ratio, it will not be subject to regulatory measures strictly on the basis of such low leverage ratio. Considering the relatively high levels of bank leverage ratios in North Macedonia (currently, all Macedonian banks have a leverage ratio in excess of the minimum of 3% determined by Basel III) and following EU practice, banks are only required to inform the NBRNM of the ratio;

- A regulation promoting good corporate governance which governs and strengthens: the role of the Supervisory Board, the manner of appointing and monitoring the work of persons with special rights and responsibilities, the activities that should be performed by the control functions, the remuneration of bank employees and board members and the establishment of an appropriate system for protection of whistle-blowers, in banks. This new regulation covers the best practices set out in the Basel Corporate Governance Principles, as well as the recommendations of the European Banking Authority ("**EBA**").

- A regulation on credit risk management and on risk management, which is detailed in the following paragraphs.

- A regulation on liquidity risk management, which introduced the Liquidity Coverage Ratio as a short-term liquidity standard that banks will have to follow and comply with starting from 1 January 2021. The new regulation is aligned with the requirements of the EU Regulation 575/2013 (CRR) and subsequent amendments as well as the relevant acts of the EC. The new regulation further enables improvement in liquidity risk management, including monitoring the liquidity coverage ratio on an aggregate level and by each significant currency, maintaining an appropriate maturity structure, monitoring of sources of funds and their concentration, monitoring of available unencumbered assets and determination, monitoring and maintenance of internal liquidity ratios.

- A new regulation which came into force on 1 January 2021 on large exposures and related parties, which implements the relevant provisions of CRR, including the latest amendments. The guidelines of the Basel Committee and the European Banking Authority for determining large exposures and identifying related persons were also taken into account during the drafting of this new regulation.

In 2019 the Ministry of Finance and the NBRNM undertook several actions to establish a regulatory and institutional framework for the banking sector that will enable harmonisation with Directive 2014/59/EU (the "**BDRD**"). In this context, the Financial Stability Committee, composed of representatives of both the Ministry of Finance and the NBRNM, decided to establish the banking resolution function within the NBRNM. This function within the National Bank, as well as the establishment of appropriate resolution mechanisms and accompanying tools, are expected to be enacted into law during 2021. The NBRNM has also focused on capacity building and aligning with best standards and practices for bank resolution through trainings and organised technical assistance on various banking resolution topics.

Basel III standards

In addition to the introduction of capital buffers and the leverage ratio, in December 2016 the NBRNM amended its methodology for capital adequacy. These amendments allow full implementation of the new requirements on the structure and quality of own funds prescribed under Basel III and the CRR. These amendments improve the quality of own funds by strengthening the criteria to be met by instruments to be included in the calculation of a bank's own funds. In addition, the introduction of minimum ratios for CET1 (4.5%) and Tier 1 capital (6%), further contribute to the improvement and the structure of banks' own funds.

These requirements, together with requirements on capital buffers, have enabled further strengthening of the solvency position of banks in the Republic. Both requirements were applicable as of March 2017. From that date, banks have been required to maintain a capital conservation buffer (2.5% of RWA); systemically important banks are also required to maintain an additional capital buffer. Systemically important banks are identified on annual basis and given a one-year period to achieve an adequate level of the respective capital buffer. Based on the NBRNM's analysis, the other two capital buffers, as regulated by the Banking Law (countercyclical capital buffer and systemic risk capital buffer), have not yet been implemented in North Macedonia.

Credit and Risk standards

The decision on the methodology for credit risk management and the Decision on the methodology for risk management (the "**Credit Risk and Risk Management Regulation**") closely follow international standards, especially requirements incorporated in the CRD/CRR and the guidelines of the Basel Committee for Banking Supervision and the European Banking Authority. Beginning in 2020, banks' risk management processes include measurement and monitoring of their internal liquidity through establishment of an internal liquidity adequacy assessment process (ILAAP). Banks are required to have detailed, and documented procedures and practices for the valuation of their internal capital and liquidity in line with their risk profile. In addition, the Credit Risk and Risk Management Regulation provides for the enhancement of banks' risk management systems by setting clear standards on development and implementation of adequate risk appetite frameworks, a more enhanced risk management function, improved stress-testing and outsourcing rules, as well as more detailed reporting to the NBRNM on important risk management data and events.

In 2017, the NBRNM implemented changes to the accounting and financial reporting regulation in order for IFRS 9 to be implemented as at 1 January 2018. IFRS 9 replaced IAS 39 and introduced a model for classification and measurement, an "expected loss" impairment model. For appropriate implementation of IFRS

9 requirements into the prudential regulation, the NBRNM has adopted a new regulation on credit risk management, which entered into force in 2019. As the previous regulation on credit risk management already required banks to implement an approach aimed at identifying expected losses arising from credit exposures, the new regulation is focused on enabling adequate use of internal models for determining expected losses on a portfolio basis, which promotes further alignment with the IFRS 9 requirements. In addition, the new regulation amends the definition of "forbearance" and "non-performing exposures" in a manner that complies with EU standards. This allows for more adequate analysis and comparison of existing NPL levels with regional and international trends.

In March 2020, the NBRNM changed its existing bylaw on credit risk management, in order to temporarily reduce the debt burden of banks' borrowers between March and September 2020 in response to the COVID-19 pandemic. From March to September 2020, the threshold for obtaining non-performing credit status was 150 days instead of the standard 90-day period. These changes allowed banks, in cooperation with clients, to change the contractual terms of credit exposures (such as approving grace periods, prolonging the final maturity date of loans, applying lower interest rates, replacing existing credit exposure with new credit exposure, etc.) without treating such credit exposures as forborne. These amendments were only applicable to clients whose loans were determined to be performing at the end of February 2020. After September 2020 and not later than December 2020, banks were required to identify non-performing loans in their balance sheets, by applying the usual regulatory standards. The effect of this measure is minimal. According to the latest available data, most of the banks have already reported their non-performing loans in October and November 2020 and the level of non-performing loans ratio remained relatively low.

Macro-prudential measures

The NBRNM has a long history of successfully implementing macro-prudential measures focusing primarily on the banking sector. The banking sector dominates financial sector assets (82.5% in 2018) and is important for ensuring financial stability in the country. In parallel, the NBRNM monitors developments in other segments of the financial system, such as insurance, the securities market and pension funds, and assesses their contribution to systemic risk. The NBRNM's assessments of the financial system as a whole are published in the Financial Stability Report, which provides an annual update on risks and vulnerabilities in the Macedonian financial sector. Risk assessments are also effected through in-depth analysis of banking sector data as well as indicators in the wider financial system, employing financial stability indicators ("**FSIs**"); other forward-looking and early-warning indicators and market information; macro stress tests and sensitivity tests to assess the resilience of banks to adverse conditions, indicators for identification of systemically important banks; and models exploring contagion risks and linkages within the system. The NBRNM strives to continuously strengthen its risk assessment capacities and further upgrade the framework for early identification of systemic risks.

In order to prevent adverse trends in the domestic banking system, in the last several years the NBRNM has undertaken certain macro-prudential measures. In December 2015, the NBRNM altered the capital adequacy framework, introducing measures to decelerate the growth of long-term consumer loans. This measure increases capital requirements for banks on long-term consumer loans with maturities equal to or longer than eight years. More recently, measures have been implemented to curb excessive credit growth in consumer lending, that were implemented through higher risk weights (150%) on consumer loans with contractual maturities of eight years or longer. To avoid major shocks in the consumer lending market and reduce growth rates to a moderate level, this measure is aimed only at long-term consumer loans approved after 1 January 2016, including loans whose term was extended to more than eight years after such date. At the same time, the NBRNM introduced higher capital requirements to counteract an increase in overdrafts and credit card debt as compared with 31 December 2015 levels and to prevent possible changeover to this type of borrowing in response to the higher capital requirements for long-term consumer loans. As a result of these measures, annual growth in long-term consumer loans has gradually decreased from 47.5% (the maximum reached in September 2015) to 7.1% as of November 2020.

Since January 2016, banks are required to write-off non-performing credit exposures that have been fully provisioned/impaired for two years (one year since July 2019) with the aim of facilitating NPL management. Banks are still required to take actions to collect these claims, although these may be written off. The effects on bank balance sheets of this requirement were most acutely felt in June 2016, when significant amounts of fully booked non-performing loans were written off. This mandatory elimination from banks' credit portfolios of historical and fully provisioned non-performing loans both improves indicators for the quality of the loan portfolio of banks and encourages banks to increase focus on management of newer and less provisioned non-performing loans, which can potentially result in future losses.

The October 2016 amendments to the Banking Law implemented the four capital buffers prescribed under CRD IV: the capital conservation buffer, the capital buffer for systemically important banks, the countercyclical capital buffer and the systemic risk buffer. Starting from March 2017, all banks in North Macedonia are required to maintain the capital conservation buffer of 2.5%. The National Bank has also developed methodologies for determining the level of capital buffer for systemically important banks and the level of countercyclical capital buffer. Both methodologies are in line with EU standards, with the main difference being that the Banking Law does not differentiate between different types of systemically important banks, in line with the structure of the domestic banking system. As of April 2017, banks identified as systemically important have been required to maintain a capital buffer level from March 2018. The NBRNM determines which banks are systemically important on an annual basis. Both the countercyclical capital buffer and the systemic risk buffer have so far remained at 0%. The NBRNM has actively used reserve requirements for macro-prudential purposes by differentiating the rates on Denar and FX deposits to reduce deposit-driven euroisation and contain currency risk. During the COVID-19 pandemic, the NBRNM lowered the reserve requirement base for newly extended and restructured credits to corporates in the sectors that are most affected by the pandemic. This measure was implemented on 15 April 2020.

Cooperation between financial regulators is effected through direct communication amongst themselves and more formal communication through the Financial Stability Committee ("**FSC**"), established in 2009. In line with the recommendations of the 2018 FSAP mission, in April 2020 the FSC was reconstituted to serve as principal domestic coordination body for macro-prudential policy and crisis management. The FSC now comprises all the financial regulatory and supervisory authorities in North Macedonia (the NBRNM, the Ministry of Finance, the Agency for Insurance Supervision, the Securities and Exchange Commission and the Agency for Supervision of Fully Funded Pension Insurance) and the Deposit Insurance Fund, providing a platform for joint risk assessment and policy coordination among different authorities. In support of the FSC, two sub-committees were created in April 2020 – the Sub-Committee for monitoring systemic risk and recommendation of macro-prudential measures and the Sub-Committee for preparing financial crisis management, both working under the guidelines of FSC. After its reconstitution in April 2020, the new FSC held four meetings (in April, June, August and November 2020), while the subcommittees held two meetings, each. A draft Law on Financial Stability that will formalize the FSC as a macroprudential body has been prepared and a public consultation process is underway.

The banking system of the Republic of North Macedonia

The banking sector is the dominant segment of the financial system, as well as the most important segment for the overall financial stability of the country. This sector consisted of 14 banks and two savings institutions as at 30 September 2020. In August 2020, the National Bank revoked the founding and operating license of Eurostandard Bank AD Skopje due to insolvency of the bank. Since this bank accounted for 1.3% of the banking system assets, the revocation of its license has not affected the stability of the banking system. One of the banks, the State-owned Development Bank of North Macedonia, is a special purpose development and export bank, which provides support for the development of the Macedonian economy through financing to small and medium-sized enterprises and export oriented companies, directly or through credit lines to other banks in the country. Ten banks are owned by foreign shareholders, eight of them from EU countries, and six of the foreign-owned banks are subsidiaries of foreign banks. Banks with predominantly foreign capital comprise the largest share of total assets, loans, deposits, revenues and profits of the banking system. The five largest banks in North Macedonia, as measured by asset size, are as follows:

Bank	Key shareholders[(1)]	Share in assets, as of 30 September 2020
Komercijalna banka AD Skopje	Adora Engineering DOOEL Export Import Skopje (12.85%)	22.9%
Stopanska Banka AD Skopje	NBG Greece S.A. (94.64%)	18.3%
NLB Banka AD Skopje	NLB Slovenia (86.97%)	16.5%
Halk Banka AD Skopje	Turkiye Halk Bankasi AS Istanbul (99.4%)	11.2%
Ohridska Banka AD Skopje[(2)]	Steirmärkishe Bank und Sparkassen Aktiengeselshaft (93.16%)	7.7%

Notes:

(1) Data on key shareholders and their respective percentage shares in total number of issued shares refer to as of 28 September 2020.

(2) In November 2019, Société Générale, S.A. Paris sold its stake in Ohridska banka AD Skopje.

Source: Central Securities Depository and National Bank of the Republic of North Macedonia and web sites of respective banks.

Each of the five banks listed in the table above has been identified as a systemically important bank in the Republic of North Macedonia (out of seven systemically important banks in total).

Savings institutions are small credit institutions that deal primarily with natural persons. They play a minor role in the banking system; each of their shares in total loans, total deposits and total assets of the banking system is approximately 0.5%.

As of 30 September 2020, the asset-to-GDP ratio of Macedonian banks amounted to 85.6%. Gross credits and deposits amounted to 52.5% and 62.3% of the gross domestic product, respectively. The following table sets out developments in banking system assets:

	Year ended 31 December					Nine months ended 30 September
	2015	2016	2017	2018	2019	2020
Banking System Assets (MKD million)[(1)]	423,668.6	444,680.3	461,992.1	503,469.0	549,969.4	568,174.3
Banking System Assets (% GDP)	75.8%	74.8%	74.7%	76.2%	79.8%	85.6%

Notes:

(1) The exchange rates applicable at individual dates are as follows: €1 = MKD 61.5947 (31 December 2015); €1 = MKD 61.4812 (31 December 2016); €1 = MKD 61.4907 (31 December 2017); €1 = MKD 61.4950 31 December 2018); €1 = MKD 61.4856 (31 December 2019)); €1 = MKD 61.6950 (30 September 2020).

Source: State Statistical Office and National Bank of the Republic of North Macedonia

General developments and performance

In the first half of 2016, the Macedonian banking system was influenced by the unstable political situation in the Republic of North Macedonia, leading to speculation about the stability of the domestic currency exchange rate, domestic banks and deposits placed with such banks. As a result, sporadic withdrawals of deposits were registered in April and May 2016. Measures taken by the NBRNM, as well as prudent liquidity management by banks, had positive effects, as they prevented further escalation, and preserved Macedonian financial stability. In 2015, annual growth of total assets in the banking system increased by 5.8%, compared to growth of 8.3% in 2014. The asset growth rate in 2016 decreased further to 5%. From 2017 to 2019, the banking system operated in the context of a relatively favourable and stable domestic and external environment. Due to the domestic political crisis, which started in 2015 and ended in June 2017, annual growth of total assets in the banking system accelerated, increasing from 3.9% at the end of 2017, to 9.0% at 31 December 2018 and 9.2% at the end of 2019. Starting since March 2020, the COVID-19 pandemic has had certain impacts (although still limited) on the banking system's dynamics. As at 30 September 2020, assets of the banking system amounted to MKD 568 billion, with year-on-year growth of 7.5% compared to 8.9% as at 30 September 2019.

Traditional banking is the dominant business model in the Macedonian banking system. Macedonian banks collect deposits as their main source of funding and make placements in the form of loans to non-financial entities. Deposits from the non-financial sector account for more than 70% of total funding and gross loans represent approximately 61% of total banking system assets.

With the exception of deposit withdrawals in 2015 (due to the Greek crisis) and 2016 (domestic political situation), the deposit base of the Macedonian banking system has been stable since 2009. After a deceleration in deposit growth rates between 2014 and 2017, from 10.7% in 2014 to 5.1% in 2017, the annual deposit growth rate increased to 9.4% in 2018 and registered similar growth of 9.2% in 2019. With a share of almost 70%, household deposits represent the bulk of total non-financial sector deposits. The annual growth rate of household deposits amounted to 6.2% in 2017, 9.5% in 2018 and 7.6% in 2019. On 30 September 2020, deposits from the non-financial sector amounted to MKD 414 billion, representing an increase of 6.6% compared to the same period in 2019 (9.5% as at 30 September 2019). At the same time, household deposits amounted to MKD 282 billion, representing an increase of 5.9% compared to the same period in 2019 (9.1% as at 30 September 2019). The COVID-19 pandemic and resulting global economic crisis have negatively affect the growth of deposits as the main source of financing for domestic banks' activities. However, the negative effects from the health and economic crisis on the banking system have been limited so far, with sporadic withdrawals of deposits noted only in April 2020.

As at 31 December 2017, credit to the non-financial sector amounted to MKD 297.6 billion, representing annual growth of 5.9% (compared to an annual growth of 1.2% in 2016 and 9.7% in 2015). Credit to corporates grew more slowly than loans to households. As at 31 December 2017, the annual growth in loans to corporates was 2.9%, compared to a decline of 3.8% in December 2016. If the effects of compulsory write-offs are not taken into account, the annual growth rates would have presented increases of 4.3% and 2.6% as at December 2017 and December 2016, respectively. The annual growth rates of loans to households are relatively strong, even when the effects of compulsory write-offs are taken into account (amounting to 9.7%, 8.3% and 13.4% in December 2017, December 2016 and December 2015, respectively).

As at 31 December 2018, credit to the non-financial sector amounted to MKD 320.1 billion, representing annual growth of 7.6% (compared to an annual growth of 5.9% in 2017 and 1.2% in 2016). Credit to corporates grew more slowly than loans to households. As at 31 December 2018, the annual growth in loans to corporates was 4.7%, compared to growth of 2.9% in December 2017. If the effects of compulsory write-offs are not taken into account, the annual growth rates would have presented increases of 6.0% and 4.3% as at December 2018 and December 2017, respectively. The annual growth rates of loans to households are relatively strong, even when the effects of compulsory write-offs are taken into account (amounting to 10.4%, 9.7% and 8.3% in December 2018, December 2017 and December 2016, respectively).

As at 31 December 2019, credit to the non-financial sector amounted to MKD 339.7 billion, representing annual growth of 6.1% (compared to an annual growth of 7.6% in 2018 and 5.9% in 2017). Credit to corporates grew more slowly than loans to households. As at 31 December 2019, the annual growth in loans to corporates was 2.4%, compared to growth of 4.7% December 2018. If the effects of compulsory write-offs are not taken into account, the annual growth rates would have presented increases of 3.9% and 6.0% as at December 2019 and December 2018, respectively. The annual growth rates of loans to households are relatively strong, even when the effects of compulsory write-offs are taken into account (amounting to 10.6%, 10.4% and 9.7% in December 2019, December 2018 and December 2017, respectively).

As at 30 September 2020, credit to the non-financial sector amounted to MKD 348.7 billion, representing an annual growth of 6.7%. Credit to corporates grew more slowly than loans to households. As at 30 September 2020, the annual growth in loans to corporates was 5.2% (this growth rate is the same if compulsory write-offs are not taken into account). The annual growth rate of loans to households is solid as of 30 September 2020 amounting to 8.3% (8.4% if the effects of compulsory write-offs are exempted).

After a relatively high credit growth rate of close to 10% in 2015, the annual growth rate in 2016 decelerated to a level of 1.2%, primarily due to the introduction of the regulatory required write-off of non-performing loans that have been fully covered with loan loss provisions for at least two years. Loans to non-financial companies increased by 5.9% in 2017, 7.6% in 2018 and 6.1% in 2019. Between 2017 and 2019, credit growth would have been higher by approximately 1.0%, excluding effects of write-offs from the calculation, and would have amounted to 6.8% (2017), 8.3% (2018) and 7.2% (2019). Credits to non-financial companies have slower growth rates compared to those for household lending and their contribution to growth of total lending amounted 26.1% in 2017, 32.2% in 2018 and 20.1% in 2019. Annual growth rates amounted to 2.9% in 2017, 4.7% in 2018 and 2.4% in 2019 (excluding the effects of mandatory write-offs, these growth rates would have amounted to 4.3%, 6.0% and 4.2%, in 2017, 2018 and 2019, respectively). Household loans increased consistently, even when taking into account the effects of mandatory write-offs. These grew by 9.7% in 2017, 10.4% in 2018 and by 10.6% in 2019 (excluding the effects of mandatory write-offs, these growth rates would have been higher and would have amounted to 9.9%, 10.5% and 11.3%, respectively). As of September 2020, loans to non-financial companies increased by 5.2% year-on-year (2.1% as at 30 September 2019) and loans to households grew by 8.3% year-on-year (9.7% as at 30 September 2019). Credit growth dynamics have maintained at a relatively high level, largely supported by monetary measures undertaken by the National Bank.

Given the dominance of traditional banking as a bank business model in North Macedonia, credit risk remains the most important risk in banking operations. Since the beginning of 2016, the National Bank of the Republic of North Macedonia has introduced a regulatory measure that obliges banks to regularly write-off NPLs that are fully covered with loan loss provisions. Consequently, the NPL ratio of Macedonian banks registered a sharp downward trend and reached a level of 6.6% at the end of 2016 down from 10.8% in 2015. The NPL ratio for loans to the non-financial sector declined from 6.3% in 2017 to 5.2% in 2018 and to 4.8% at the end of 2019. The corporate credit portfolio has traditionally been of somewhat lower quality, with the NPL ratio amounting to 7.6% as at 31 December 2019 (10% in 2017 and 8% in 2018). On the other hand, the NPL ratio in the household sector credit portfolio is relatively low and rather stable, amounting to 2% as at 31 December 2019 (down from a level of 2.4% and 2.3% at the end of 2017 and 2018, respectively). The coverage of NPLs with provisions for NPLs has always been high, amounting to approximately 77% as at the end of 2017 and 2018. In 2019, after implementing the mandatory write-offs of fully provisioned NPLs, the coverage ratio of NPLs decreased to 67.7% as of the end of 2019. In the most severe simulations on non-collection of all NPLs, the capital adequacy ratio of the banking system would be impacted by approximately 0.7%. As of September 2020, the NPL ratio for corporate credit and household portfolios amounted to 5.4% and 1.6%, respectively, while the

NPL ratio for the overall non-financial sector equals to 3.4%. At the same time, the coverage ratio for NPLs amounted to 75.4%. Hence, despite the economic crisis, NPL ratios have further dropped in 2020, mainly due to write-offs of NPLs imposed by regulation, the exit of one bank from the system (this bank had some larger amount of NPLs in its portfolio, especially in the corporate portfolio), and the moratorium on payments due to Covid-19, that contributed to low inflow of new NPLs.

As a result of the COVID-19 pandemic, the NBRNM changed the existing by-law on credit risk management to temporarily reduce the debt burden of banks' borrowers between March and September 2020. See "*—Credit and Risk Standards*" These amendments were followed by a Decree, adopted by the Government, which specified the procedure that banks should apply when announcing and offering changes to the contractual terms of credits approved between March and September 2020. In April 2020, banks responded with public offers to clients (natural persons) for approval of "grace-periods" in the repayment of loans for a period of three to six months. During September 2020, in accordance with regulation, banks altered the contractual terms for credits for the clients that were most affected by the COVID-19 crisis. As of 30 September 2020, around 43% of performing loans to non-financial sector contained amended contractual terms, while approximately 7% of performing loans needed a second restructuring of the credit terms after 30 September 2020. After the expiration of the moratorium on payment in the first months of 2021, some materialization of credit risk in banks' credit portfolios is expected. Possession of high liquidity buffers has always been a strength of Macedonian banks'. Since 2010, liquid assets have represented approximately 30% of total assets of the banking system and have covered approximately 60-65% of household deposits, while liquid assets have covered approximately 55-60% of short-term liabilities since 2011. As at 30 September 2020, banks' liquid assets comprise 29.9% of total assets (compared to 32.4% as at 30 September 2019) and cover 50.3% of short-term liabilities (compared to 56.4% as at 30 September 2019) and 58.9% (compared to 62.9% as at 30 September 2019) of total household deposits. The loan-to-deposit ratio has regularly been maintained at a stable level of between 85% and 90%. As at 30 September 2020, the loan-to-deposit ratio amounted to 84.3% (81.6% on 30 September 2019). The volume of loans in the Macedonian banking system has been flat over the last 3 years. As at 30 September 2019 and 2020, respectively, the amount of loans outstanding was MKD 341 billion and MKD 349 billion (respectively). The amount of deposits in the North Macedonian banking system has also remained stable. As at 30 September 2019 and 2020, deposits in the North Macedonian banking system were equal to MKD 418 billion and MKD 414 billion (respectively). The table below shows loans, deposits and loan-to-deposit ratio for the periods indicated.

	As at 31 December					As at 30 September
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Financial Soundness Indicators						
Loans (MKD million)	277,533.2	280,962.3	297,575.7	320,085.3	339,698.7	348,734.6
Deposits (MKD million)	306,189.8	322,796.8	339,281.1	371,333.5	405,586.7	413,804.8
Loan-to deposit ratio	90.6%	87.0%	87.7%	86.2%	83.8%	84.3%

Source: Financial Stability Department of the Republic of Macedonia

Starting since 1 January 2021, a new Decision on liquidity risk management was enacted, which, among other things, will stipulates an obligation for banks to calculate and maintain the so-called Liquidity Coverage Ratio, in accordance with the requirements of Basel III. The changes to the Banking Law (from October 2016) and amendments to the Decision on the methodology for determining the capital adequacy ratio (applied from March 2017), which implemented the new rules of the Basel Committee (Basel III) and the CRR/CRD IV serve as additional support for bank solvency in North Macedonia. The Macedonian banking system is compliant with the capital component of the Basel III framework. From March 2017, four capital buffers requirements were introduced: the capital conservation buffer, the capital buffer for systemically important banks, the counter-cyclical capital buffer and the systemic risk capital buffer. All banks are required to maintain a capital conservation buffer at a level of 2.5% of risk weighed assets. In addition to requirements on the maintenance of bank capital adequacy ratios at a level of at least 8%, two additional solvency ratios are prescribed in the Banking Law – the common equity tier 1 ratio and the tier 1 ratio, which may not decline below 4.5% and 6%. The conservation capital buffer of 2.5% and the capital buffer (ranging from 1%- 2.5%) for systemically important banks are both being actively applied. Seven banks have been identified as systemically important according to the latest list of systemically important banks, based on year-end 2019 data. The NBRNM published this list at the end of April 2020. The counter-cyclical and the systemic risk capital buffer are two additional macro-prudential tools at the disposal of banks according to regulation - however these are not yet being actively applied. The counter-cyclical capital buffer which may amount up to 2.5% of risk weighted assets, is intended to protect banks from risks arising from the changes in the credit cycle. The countercyclical capital buffer is introduced or increased during periods of significant credit growth, and is reduced or removed in periods of downward credit cycles. The countercyclical capital buffer has remained at 0% since its introduction because there has not been an excessive credit growth (measured by the credit-to-GDP ratio and its long-term trend). It is only applied if the gap between the realized level of credit-to-GDP ratio (share of credit to private sector in GDP) and its long-term trend exceeds +2.0%. According to the NBRNM's latest calculations, as of 30 September 2020, the gap between realized level of credit-to-GDP ratio and its long-term trend is negative (-3.1%), which is far below the required level of minimum +2.0% for this capital buffer to be introduced. The purpose of the systemic risk capital buffer is to limit the risk of disruptions to the financial system or the national economy, due to activities conducted by one or more banks or the risks the banks are exposed to. The systemic risk capital buffer would be actively applied if conditions that might potentially disturb or jeopardize the stability of the Macedonian financial system and economy are detected or identified, that require additional resilience in the banking system in the form of higher capital. The systemic risk buffer rate is currently 0%. So far, in the NBRNM's regular analyses, such systemic risk exposures have not been identified. The obligation to meet the systemic risk buffer rate may be applied to individual banks or to all banks in North Macedonia, may range from 1% to 3% of the risk weighed assets and may be different for different banks or groups of banks.

In addition, through the supervisory review and evaluation process, particular capital add-ons for individual banks are determined, according to each bank's risk profile. As of 30 September 2020, the aggregate capital adequacy ratio of the banking system was 16.9%, with the Tier 1 ratio equalling 15.5% and Common Equity Tier 1 ratio (CET1 ratio) amounting to 15.4%. In the first half of 2020, the leverage ratio equalled 10.5% (latest available data). Around 47% banks' own funds are used for Pillar I risk coverage (regulatory determined risks according to a standardised approach: credit risks, operational risks, currency and other market risks), approximately 23% of own funds are deployed to fulfil the activated capital buffers (conservation capital buffer and capital buffers for D-SIBs) and approximately 20% of own funds are used for Pillar 2 risk coverage. The remaining own funds are "free" capital for coverage of any unexpected losses that banks may incur.

	As at 31 December					**As at 30 September**
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Capital adequacy ratio						
Large banks	14.9	14.6	15.2	16.4	16.2	16.7
Medium-sized banks............................	16.3	16.6	17.2	16.7	16.5	17.7
Small-sized banks................................	18.7	19.2	17.2	17.9	17.8	18.3
Total banking system.........................	15.5	15.2	15.7	16.5	16.3	16.9

Source: National Bank of the Republic of Macedonia

In an environment of historically low and continuously decreasing interest rates, the Macedonian banks have recorded high profits (even in comparison with the banking systems of some EU countries), while maintaining relatively high net interest margins, improving cost-efficiency and maintaining impairment losses at stable levels. The banking sector's profitability in recent years is primarily due to Macedonian banks' ability to generate net income from interest-bearing activities, primarily by adjusting interest expenses while improving operating efficiency and producing earnings through the NPL resolution process. The collection of a larger amount of NPLs by several banks (through a sale process of the NPLs to one large non-financial corporation) was the primary driver of high profit growth in 2018, which can be considered a one-off event. On the other hand, growth in net interest income, as the main income component, has decelerated in recent years and in 2018 and 2019, had a negative contribution to the profit growth in the banking sector. The net profit of the Macedonian banking system for the first nine months of 2020 increased 2.1% to MKD 5.9 billion due to higher capital gains on sales of foreclosed assets and larger gains from collection of previously written-off claims. There was also a positive effect from the operating cost reduction as well as from the modest increase in net interest income. The positive developments were partly offset by the expected increase in credit losses (impairment losses) and the reduction in fee and commission income. The ability to rationalise interest expenses has narrowed in recent years, requiring greater engagement by banks to strengthen their ability to generate income. As at 30 September 2020, the interest rate on deposits amounted to a historical low of 0.98%.

As at 31 December 2019, the ROAA (return on average assets) and the ROAE (return on average equity) were 1.3% and 11.7%, respectively, compared to 1.7% and 16% in 2018, 1.4% and 13.5% in 2017 and 1.5% and 13.6% in 2016 and 1.1% and 10.4% in 2015, respectively. As at 30 September 2020, the banking system ROAA amounted to 1.4%, whereas ROAE amounted to 12.3%.

The NBRNM conducts quarterly stress tests to analyse bank sensitivity to individual and combined hypothetical shocks relating to, among others, a deterioration in the quality of the credit portfolio, the withdrawal of deposits, changes in the interest rates and foreign exchange rates. Results have generally been satisfactory, indicating that the banking sector in North Macedonia is stable and resilient to most of such shocks. The NBRNM's quarterly stress test simulations indicate that only with an extremely large increase in non-performing credit exposure to non-financial entities (of 389.7% as at 30 September 2020) i.e., with a shift of 16% from performing to non-performing credit exposure, the capital adequacy of the banking system would decrease to 8% (for illustrative purposes, only 0.2% of performing credit exposure to the non-financial sector became non-performing in the third quarter of 2020, whereas the non-performing credit exposure declined by 26.9%). With the assistance of IMF experts, the NBRNM has developed a model for macroeconomic stress-testing. The results of the latest stress test, conducted with 2019 data, are published in the Report on the Financial Stability in the Republic of North Macedonia.

Capital Markets

In order to promote the transition to a market based economy and facilitate the economic development of Macedonian businesses, the Government of North Macedonia has focused on establishing and maintaining stable and efficient capital markets. North Macedonia implemented securities market legislation in 1993, providing the foundation for the development of the capital markets.

Legislation Governing Capital Markets

The legal framework governing capital markets in the Republic of North Macedonia includes, among others, the *Law on Securities*, the *Law on Investment Funds*, and the *Law on Taking Over Joint Stock Companies*.

In 2017, following the example of other European countries, the Council for the Development of the Capital Markets (the "**CDCM**") was established in the Republic of North Macedonia pursuant to the "Official Gazette of the Republic of Macedonia" No. 175/17 issued by the Government. The CDCM consists of a president and 13 members. The president of the CDCM is the Minister of Finance, and the members are the Minister of

Economy, the Minister of Labour and Social Policy, the governor of the National Bank, the chairman of the Securities and Exchange Commission of North Macedonia, the chairman of the Council of Experts of the Insurance Supervision Agency, the chairman of the Council of Experts of the Agency for Supervision of Fully Funded Pension Insurance, the directors of the North Macedonia Stock Exchange and the Central Securities Depository, the president of the Securities Operations Association and the directors of the KB First Pension company and the Sava pension company. The main functions of the CDCM are to monitor the national capital markets, promote the growth and long-term development of the local capital markets and, if necessary, to propose and implement measures to maintain the stability of the markets.

In 2019, the World Bank prepared an assessment the legislative framework for private equity and venture capital funds in North Macedonia as part of a broader initiative to align the legislative framework of North Macedonia with that of the EU. The assessment recommended the development of a specific Alternative Investment Fund (or private investment fund) framework under the Law on Investment Funds applicable only to PEVC funds (or AIFs), the removal of the artificial constraints applicable to private investment funds pursuant to the Law on Investment Funds, such as the minimum duration of private investment funds (eight years), the maximum number of investors (20) and the minimum amount to be invested in private investment funds. With respect to management companies, it also recommended regulation of the contents of disclosure and reporting to investors; management of conflict of interests; liquidity management; fair treatment of investors; implementation of risk management rules and compliance functions; valuation of assets and remuneration of managers.

North Macedonia has secured funding to implement the proposed recommendations from the UK-based Good Governance Fund, under the broader umbrella of work related to the Innovation and Competitiveness Ecosystem. A technical assistance was provided by the World Bank for transposition Directive 2011/61/EU for managers of alternative investment funds into domestic legislation and the regulation on venture capital funds 345/2013. In 2020, working groups composed of employees of the representatives from the Ministry of Finance, the Securities and Exchange Commission of the Republic of North Macedonia, the Macedonian Stock Exchange, the Central Securities Depository of the Republic of North Macedonia, the National Bank of the Republic of North Macedonia and the Securities Operations Association to draft and implement certain capital markets reforms, including adopting two new laws (the Law on Financial Instruments and the Law on Securities Prospects and Transparency Obligations for Publishers) which are expected to replace the existing securities laws and align with EU capital markets directives. The new legislation is expected to (i) create conditions for the development of new products and services in the national capital markets, (ii) introduce new platforms for trading, (iii) provide a higher level of stability in the market, (iv) strengthen the supervisory powers of the CDCM, (v) enhance transparency by requiring the provision of more information and (vi) improve the protection of investors and all market participants.

In 2020, further amendments were agreed on the Law on Investment Funds in order to align it with the UCITS directive, especially in:

- defining the procedures for mergers of investment funds;
- introducing the establishment of feeder funds in connection with which certain investments will be subject to prior approval and the satisfaction of certain conditions; and
- prescribing new document “key investor information as a supplement to the fund’s basic prospectus in order to provide enhanced disclosure to investors.

Currently, these amendments are under government procedure.

The SECRNM

The Securities and Exchange Commission of the Republic of North Macedonia (the "**SECRNM**") was established following the country's independence, on 19 June 1992, on the basis of a Government Decision made in accordance with the Law on Securities of the former Yugoslavia. Since 1994, the SECRNM has been a regular member of the International Organisation of Securities Commissions ("**IOSCO**") and is an autonomous and independent legal entity that regulates and supervises all authorised participants within the national securities market (securities depositories, stock exchanges, brokerage houses, banks dealing with securities, brokers and investment advisors). Since 2010, the SECRNM has been a signatory of the IOSCO's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

The main priority of the SECRNM is to oversee and facilitate a well-regulated, transparent and highly developed securities market, as well as maintaining efficient, fair and legal capital markets with high integrity, in order to maintain the confidence of all capital market participants and protecting the rights and interests of the investors and shareholders as part of improving the investment climate.

As at 31 December 2020, the SECRNM had 24 employees, including the President of the SECRNM and one Commissioner. In 2016, regulators of the securities markets from North Macedonia, Slovenia, Serbia, Croatia, Montenegro, the Republic of Srpska, the Federation of Bosnia and Herzegovina and the Brcko District signed a Declaration of Cooperation in order to strengthen cooperation between regulators in the region. The goals outlined in the Declaration of Cooperation include the establishment of a common methodology and practice for the provision of investment services, strengthening supervision through inter-regulator cooperation, developing common regulations and standards for sanctioning market manipulation and insider trading, establishing common procedures for the regulation of various financial instruments and certain investor education initiatives.

In 2019, the SECRNM carried out seven full and thirteen partial assessments of controls on the operations of authorised securities market participants and on the operations of investment funds. Where legal violations were detected, the SECRNM took appropriate action to eliminate any identified irregularities and prevent further dishonest and/or illegal activities on the capital markets.

The Macedonian Stock Exchange

All secondary trading in securities in North Macedonia, except for continuously issued Government securities, which can be traded through the OTC market, is conducted on the Macedonian Stock Exchange ("**MSE**"). The MSE was founded on 13 September 1995 as the Macedonian Stock Exchange, and commenced trading on 28 March 1996 as a central marketplace for trading in securities. It was the first organised stock exchange in the Republic. The table below reflects key indicators of the MSE as at and for the years presented.

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
	(MKD million unless indicated otherwise)				
Turnover	3,023	4,738	10,414	7,701	8,195
Block trades	645.4	1.818	5.261	2.46	2,04
Public offerings	—	—	247	992	166
Public auctions	45.5	12.9	17	31	—
Shares	1,823	2,729	4.358	3.819	5,681
Government bonds	508.9	179	531	358	284
Market Capitalisation	120,148	136.339	162,169	189,459	196,828

	Year ended 31 December				
	2016	2017	2018	2019	2020
	(MKD million unless indicated otherwise)				
Turnover/Market Capitalisation (%)..................	2.5	3.5	6.4	4.1	4,2
Index value (index points)....	2,134.9	2.538,86	3.469,03	4.648,89	4.704,84

Source: Macedonian Stock Exchange

In 2019, securities market of North Macedonia had its first few local issuances of corporate bonds. These included four issuances out of the banking sector, with offerings ranging from MKD 92 million to MKD 307 million.

Central Securities Depositary

The Central Securities Depositary (the "**CSD**") is responsible for the registration of securities, the execution of non-trade transfers and the settlement of trade transactions in North Macedonia. All trades conducted on the MSE are automatically transmitted to the CSD immediately after the end of each trading session. Initial clearing (identification of buyers/sellers, quantity of securities and prices) is effected by the MSE BEST (Bourse Electronic System of Trading) system. The remainder of the clearing and settlement process is completed by the CSD. The securities register of the CSD is the only legally valid evidence of issuance and ownership of securities. All securities issued in North Macedonia are registered in a depository as electronic records. Rolling settlement of trade transactions is implemented on the basis of DVP (delivery versus payment) principles. The settlement period for the securities traded on the stock exchange is maximum T+2; while the settlement period for the securities traded OTC is T+0.

Investment Funds

By the end of 2020, there were four investment fund management companies in North Macedonia, managing 17 open-ended investment funds. The total net asset value of the funds on 31 December 2020 was MKD 9.5 billion or approximately €145,5 million, representing a 4% increase as compared to 2019. The accelerated growth starting from 2019 was due to the attractiveness of the cash funds and the improved investment and business climate.

Insurance Sector

Legislation and Institutional Framework

Insurance companies conduct their activities in accordance with the Law on Insurance Supervision, the Law on Compulsory Insurance in Traffic and the Law on Voluntary Health Insurance. These laws provide the basic legal framework for regulating insurance and reinsurance activities and supervision of the operations of insurance companies, insurance brokerage companies and insurance agencies.

The broader legal framework is provided under the Contractual Law.

The Law on Insurance Supervision incorporates the principles and standards of the International Association of Insurance Supervisors ("**IAIS**") as well as EU Insurance Directives. This law regulates (i) the establishment and operations of insurance companies, (ii) risk management, (iii) the role of authorised actuaries, (iv) financial reporting, (v) internal and external auditing, (vi) the activities of insurance brokerage companies and agencies, (vii) supervision over insurance companies, (viii) procedures for decision-making by the Insurance Supervision Agency ("**ISA**"), (ix) the operations of insurance and reinsurance pools, (x) cooperation with supervisory agencies and EU authorities and (xi) penalty provisions.

In connection with the alignment of national legislation with the EU Acquis in the insurance sector, the EU has provided technical assistance to North Macedonia through a Twinning Project, "*Further harmonisation with the EU in the field of insurance and increase of market operations*", which was established in 2016 and completed in 2018. A new law on insurance, which will be fully harmonised with the EU Acquis, is expected to enter into force, partially in 2022, with the remainder to enter into force upon the accession of North Macedonia to the EU.

The Law on Compulsory Insurance in Traffic provides for mandatory insurance to protect potential victims of traffic accidents. This law increased required levels of insurance coverage and will gradually align such amounts to those adopted under EU Directives. It further provides for the regulation of deadlines for filing claims and indemnification of claims by the insurance companies, conditions for mediation, strict regulation of the competencies of the Guarantee Fund, and the determination of premium tariffs (in connection with which the Motor Insurance Commission was established). The law also facilitates the provision of cross-border insurance services through an authorised claims representative, and introduces a "Damage Compensation Service" — both of which will be effective once North Macedonia joins the EU.

The Law on Voluntary Health Insurance prescribes a wider scope of activities for insurance companies to offer packages of health services not covered under the compulsory health insurance system.

Both domestic and foreign legal entities and/or natural persons may form an insurance company in the legal form of a joint stock company. An insurance company cannot perform composite insurance operations. The share capital of an insurance company must be at a level not lower than the Guarantee Fund, which is the minimum required capital. The Guarantee Fund must constitute one third of the required level of solvency margin, and should not be lower than €2 million if the insurance company undertakes operations in non-life insurance classes other than compulsory insurance in traffic, and €3 million if the insurance company undertakes operations in compulsory insurance in traffic, or life assurance. A reinsurance company must possess at least €4.5 million of shareholders' capital to perform reinsurance operations.

In compliance with the Insurance Supervision Law, the ISA is an autonomous and independent regulatory body which commenced operations on 1 November 2009. The ISA supervises insurance companies through established processes of licensing, on-site and off-site supervision and issuing measures of supervision, such as license revocation, liquidation of insurance companies and submitting proposals to open bankruptcy procedures against insurance companies, with the purpose of safeguarding the interests of insurance policyholders and promoting a sound and competitive insurance market. The ISA also has the authority to adopt and implement secondary regulation on the insurance market and control whether measures against money laundering are implemented and enforced.

Insurance Market and Supervision

There are currently 16 licensed insurance companies operating in North Macedonia. Five of these provide life insurance, while the remaining 11 provide non-life insurance. One of the non-life insurance companies is also licensed as a reinsurer. Fourteen of the insurance companies are controlled by foreign legal entities. At 31 December 2020, the aggregate share of foreign ownership in the insurance market was 80%.

Gross written premiums as of 31 December 2020 totalled MKD 10.1 billion, representing a 4.9% decrease compared to the same period in 2019. Aggregate gross written premiums in the non-life insurance sector totalled MKD 8.3 billion, representing a decline of 4.9% over the same period in the previous year. The life-insurance sector's gross written premiums totalled MKD 1.7 billion, representing a decrease of 4.9% over the same period in 2019.

Insurance penetration (measured as the ratio of gross written premiums to GDP) at the end of 2020 was 1.5%, and insurance density (measured as the total amount of gross written premiums divided by total population) was MKD 4,848. The insurance sector is characterised by its moderate market concentration. As of 31 December 2020, one insurance company had a market share of greater than 10% but less than 20%, with the remainder having less than 10%.

As of 31 December 2020, insurance companies held MKD 25.7 billion in assets, representing an increase of 7.5% compared to the same period in 2019. The total capital of insurance companies amounted to MKD 5.0 billion, representing growth of 1.5% over the same period in 2019. The solvency margin, the main indicator for assessing the stability of the insurance sector, was MKD 1.6 billion, which was 4.3 times higher than the required solvency margin level. For the year ended 31 December 2020, the insurance sector reported a profit of MKD 487.0 million, with the non-life sector reporting MKD 309.1 million, and the life insurance sector reporting MKD 177.9 million.

The role of intermediaries in insurance sales has become increasingly important for the insurance sector. As of 31 December 2020, direct sales by insurance companies generated 43.5% of gross written premiums, whereas 56.5% were generated through intermediaries. In the same period, there were 40 insurance brokerage companies operating as insurance intermediaries on the insurance market. The minimum required capital for establishing an insurance brokerage company is €50,000. In addition, there were 17 insurance agencies (including banks that sell insurance products) licenced to perform insurance activities. The minimum required capital for establishing an insurance agency is €15,000.

INDEBTEDNESS

*NBRNM debt that is created for monetary purposes, consisting primarily of CB Bills ("**NBRNM debt**"), is not regarded as public debt (as set forth in the Public Debt Law of Article 5, as modified and amended. Accordingly, NBRNM debt is not included in the data in this section.*

General government debt is the sum of all financial liabilities created through borrowing by the Republic, the public institutions established by the Republic and its municipalities. General government debt is comprised of external general government debt and domestic general government debt. External general government debt includes external central government debt and external municipalities' debt to multilateral, bilateral and private creditors. Domestic general government debt includes domestically issued structural bonds (issued to address specific structural problems in the economy), regular issuances on the domestic market of Treasury bills and bonds and domestic municipal debt. Public debt is comprised of general government debt and both guaranteed and non-guaranteed external and domestic debt of public enterprises. Under the latest amendments to the Public Debt Law in May 2019, non-guaranteed debt of public enterprises is included in the definition of public debt.

The following table sets out outstanding general government debt and public debt of North Macedonia as at the dates indicated.

	As at 31 December					
	2015	**2016**	**2017**	**2018**	**2019**	**2020-**
	(€ million)					
Total general government debt (€ million)	3,453.3	3,851.5	3,958,5	4,344.4	4,556.8	5,516.0
External (€ million)	2,096.7	2,446.6	2,376.8	2,695.0	2,763.5	3,382.5
Domestic (€ million)	1,356.6	1,404.9	1,581.7	1,649.4	1,793.3	2,133.4
Total general government debt (p.p. GDP)	38.1	39.9	39.4	40.4	40.7	51.2(3)
External (p.p. GDP)	23.1	25.3	23.7	25.1	24.7	31.4(3)
Domestic (p.p. GDP)	15.0	14.5	15.8	15.3	16.0	19.8(3)
Total public debt (€ million)	4,227.2(1)	4,711.4(1)	4,786.9(1)	5,202.2(1)	5,540.9(2)	6,483.3(2)
Total public debt (p.p. GDP)	46.6(1)	48.8(1)	47.7(1)	48.4(1)	49.4(2)	60.2(3)

Notes:

(1) Includes guaranteed debt.

(2) Includes guaranteed and non-guaranteed debt.

(3) Estimated.

Source: Ministry of Finance, National Bank of the Republic of North Macedonia, State Statistical Office of the Republic of North Macedonia

Total general government debt of North Macedonia as a percentage of GDP amounted to 51.2% as at 31 December 2020, comparing favourably to other countries in the region as well as the EU average. The table below sets forth comparative data for the regional and EU averages for the periods indicated.

	As at[2] 30 September 2020
General Government Debt (% GDP)[1]	
Eurozone area	97.3%
Croatia	86.4%
Albania	79.7%
Serbia	57.6%
Montenegro	79.5%
North Macedonia[3]	51.2%
Bulgaria	25.3%

Notes:

(1) The scope of general government debt may differ between countries due to methodological differences.

(2) These are provisional figures.

(3) Data provided for North Macedonia is as of 31 December 2020.

Source: Provisional figures provided by Eurostat, Ministry of Finance and the respective ministries of finance of Albania, Serbia and Montenegro

External General Government Debt

As at 31 December 2020, the external general government debt of North Macedonia amounted to €3.38 billion, or 31.4% of GDP, and 61.3% of total general government debt. Total external general government debt has risen gradually in recent years, primarily due to the Government's Eurobond issuances in 2015, 2017, 2018 and 2020, which amounted to €500 million, €450 million, €500 million, €700 million, respectively, as well as public investment projects with the IBRD, CEDB, EBRD and EIB, which more than offset repayments of maturing debt.

The following table shows total external general government debt at the end of the periods indicated.

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(€ million)		
External General Government debt	2,446.6	2,376.8	2,695.0	2,763.5	3,382.5
Multilateral Creditors	773.8	761.6	745.9	846.1	1,129.7
IDA	240.8	213.4	203.8	192.6	168.3
IBRD	237.5	228.5	215.2	328.4	400.6
EIB	119.7	115.5	133.5	128.4	126.1
EBRD	80.2	100.2	94.8	91.5	79.2
CEDB	71.0	88.6	89.1	96.0	101.7
EU	13.6	5.6	0.0	0.0	80.0
IFAD	10.8	9.7	9.4	9.1	8.2
IMF	0.0	0.0	0.0	0.0	165.5
Bilateral Creditors[1]	89.4	77.4	73.2	68.5	64.2
Newly concluded credits	89.4	77.4	73.2	68.5	64.2

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(€ million)		
Private creditors	1,583.4	1,537.8	1,876.0	1,848.9	2,188.6
Eurobonds	1,220.0	1,220.0	1,628.3	1,628.3	2,150.0
Other private creditors	363.4	317.8	247.6	220.6	38.6
Government guaranteed debt(2)	859.9	828.4	857.7	942.2	920.0

Notes:

(1) The KfW, JICA, ICO Spain, Artigiancassa, ICDF, U.S. Department of Agriculture, non-rescheduled Paris club debt.

(2) Data includes the stock of external and domestic guaranteed debt. Government guaranteed debt is not included in External Government Debt.

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

Debt owed to private and multilateral creditors amounted to 64.7% and 33.4%, respectively, of total external general government debt as at 31 December 2020. The IBRD and the IDA are the principal multilateral creditors to which North Macedonia owed €400.6 million and €168.3 million, respectively, as at 31 December 2020.

Eurobond issuances and external loans

In December 2015, Macedonia issued its fourth Eurobond in an aggregate principal amount of €270 million and bearing interest at 4.875%, maturing in December 2020. The proceeds of the issuance were used for budget support in 2015 and to repay maturing debt liabilities.

In July 2016, Macedonia issued its fifth Eurobond in an aggregate principal amount of €450 million and bearing interest at 5.625%, maturing in July 2023. The proceeds of the issuance were used for budget support in 2016 and 2017 and to repay maturing debt liabilities.

In January 2018, the Government of Macedonia issued its sixth Eurobond in an aggregate principal amount of €500 million and bearing interest at 2.75%, maturing in January 2025. The proceeds of the issuance were used for budget support, to repay maturing debt liabilities and for a partial redemption of the third Eurobond issuance in the amount of €91.7 million.

In June 2020, the Government of Macedonia issued its seventh Eurobond in an aggregate principal amount of €700 million and bearing interest at 3.675%, maturing in June 2026. The proceeds of the issuance were used for budget support in 2020 and 2021 and to repay maturing debt liabilities.

Historically, the Ministry of Finance has used a range of sources to finance its budgetary needs. Funds have been provided through regular loan disbursements from international financial institutions as well as from the international capital markets.

Taking into account unfavourable conditions prevailing on the international capital markets during the crisis period (high interest-related costs and short repayment periods), the Republic of North Macedonia turned to other sources of financing, such as loan facilities. For example, a loan facility in the amount of €125 million in the form of a Development Policy Loan from the World Bank, with twelve-year maturity, including a four-year grace period, and an interest rate of Euribor + 0.5% was signed on 18 October 2019.

International Financial Institutions

As at 31 December 2020, approximately 33.4% of the total external general government debt of North Macedonia was owed to IFIs. This debt had been incurred in connection with a variety of policy initiatives and infrastructure projects, as further discussed below. For further details on the programmes supported by these institutions in North Macedonia, see "*Overview of the Republic of North Macedonia — International Relations — Relationship with International Organisations and Private Foreign Investors"* and *"Macedonian Economy — Public Investments*".

International Monetary Fund

The Republic of North Macedonia was the first IMF member to take advantage of the PCL, an IMF instrument designed for countries with sound policies that do not have immediate financing needs but face risks that could give rise to such needs. On 10 April 2020, due to the significant negative effects of the COVID-19 pandemic, the IMF approved the disbursement of €176.5 million from the IMF's RFI to the Republic of North Macedonia to assist the Government in its response to the negative effects of the pandemic. The funds will help finance health and macroeconomic stabilisation measures and meet the urgent balance of payments needs arising from the COVID-19 pandemic.

World Bank

The Republic joined the World Bank in 1993. Since joining, it has received assistance from the World Bank in the form of loans and/or guarantees of bank financing targeted at specific projects and reforms. The World Bank has historically worked to maintain macroeconomic stability and develop a sound financial sector in the Republic of North Macedonia. Commitments from the World Bank to the Republic of North Macedonia as at 28 January 2021 totalled approximately US $2.5 billion in the form of loans and grants.

On 30 April 2020, in response to the COVID-19 pandemic, the World Bank approved an emergency loan of €90 million to North Macedonia. The loan agreement was signed on 19 October 2020. The proceeds of the loan will be targeted towards (i) providing immediate support to disease surveillance systems and public health laboratories, including through the procurement of diagnostic kits, personal protective equipment ("**PPE**") and training on relevant protocols; (ii) providing support for limited renovations to create additional intensive care unit beds, for medical waste management and disposal systems and for financing salaries of frontline health workers; and (iii) financing temporary income support for vulnerable households under quarantine and temporary unemployment insurance for those who have lost their jobs due to the outbreak of the COVID-19 pandemic. In response to the COVID-19 pandemic, the Republic and the World Bank activated €37 million from the Contingency Emergency Response Component of the Local Roads Connectivity Project to support local companies which have been severely impacted by the COVID-19 pandemic by contributing towards employees' wages and social contribution subsidies for the months of April, May and June 2020.

An agreement with the World Bank was reached in February 2021 to increase their funding of a project to enhance North Macedonia's broadband connectivity. The increased amount of funding is expected to be approximately €37 million. This is additional to the €70 million funding agreement which was reached previously in 2020, however some of this funding was partially redirected to combat the economic impact of COVID-19.

The World Bank supports development projects (offering budget support), and along with a number of other IFIs, also supports projects with infrastructural, social, educational and other similar benefits. As at 31 December 2020, the Republic of North Macedonia had a total of €181 million of debt outstanding in investment in general government projects funding from the World Bank (IBRD loans only). See "*Overview of the Republic of North Macedonia—International Relations—Relationship with International Organisations—World Bank*".

European Investment Bank

Since 1998, the EIB has supported Government investments in various sectors of the Macedonian economy and the infrastructure of North Macedonia. The total value of the finance contracts signed with EIB since 1998 amounted to €913 million, of which €266.3 million represented the outstanding indebtedness of North Macedonia as at 31 December 2020 (with the debt of public enterprises amounting to €140.2 million). EIB projects have focused on infrastructure and energy loans, as well as support for small and medium sized enterprises.

European Bank for Reconstruction and Development

The EBRD has been active in the Republic since 1993. Since then, the EBRD has provided €2.07 billion in funding to 137 projects, with the majority of such funding being allocated to sustainable infrastructure, mainly in the transport and the energy sectors.

Council of Europe Development Bank

Since 2004, the CEB has supported social protection projects in the Republic such as building rental housing units for families in socially precarious situations, and other projects in health, education and the judicial system. The cooperation of the country with the CEB has focused on the implementation of on-going projects. As at 31 December 2020, North Macedonia had a total of €101.7 million in outstanding debt for development project funding from the CEB.

Public Debt by Currency

The following table shows general government debt by currency (as a percentage of total general government debt) as at 31 December 2020.

Currency	**As at 31 December 2020**
EUR	69.0%
USD	0.1%
SDR[(1)]	6.2%
MKD	24.1%
JPY	0.6%

Note:

(1) Special drawing rights. The majority of payments on these are made in USD.

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

As at 31 December 2020, 69.0% of the general government debt of North Macedonia was denominated in Euro. While the debt is not hedged, the risk of devaluation is low as the Denar is informally pegged to the Euro and most of the country's revenue from exports is also denominated in Euro. In the medium-term, the Government intends to increase the share of Euro-denominated debt in its portfolio. For certain public enterprises such as the national power plant, ELEM, the Development Bank of North Macedonia, PESR and Macedonian Railways, North Macedonia provides guarantees to creditors on both domestic and foreign borrowing; as at 31 December 2020, this guaranteed public debt amounted to €929.5 million, or 8.6% of GDP. The following table shows guaranteed public debt by borrower as at 31 December 2020.

	As at 31 December 2020	
	(€ million)	% of GDP[1]
Borrower		
AD ESM	62.0	0.6%
AD MEPSO	17.2	0.2%
PESR	656.7	6.1%
MBDP	146.8	1.4%
Railways of RNM Transport	36.0	0.3%
MZ Infrastructure	1.0	0.01%
Public Transport Company	9.8	0.1%
Total	929.5	8.6%

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

Note:

(1) Estimated.

Most of the Government guaranteed debt issued recently has been used to fund infrastructure projects in order to support the economic growth of North Macedonia and greater competitiveness of the domestic economy in the medium-term.

General Government Debt Service

The following table sets out general government debt service for the periods indicated.

	Year ended 31 December				
	2016[1]	**2017**[2]	**2018**[3]	**2019**[4]	**2020**[5]
			(€ million)		
Domestic General Government Debt service	195.7	201.8	249.8	215.8	298.2
Principal	152.8	155.0	203.4	174.1	253.3
Interest	42.9	46.8	46.4	41.7	44.9
External General Government Debt service	260.0	226.7	340.5	186.5	518.8
Principal	190.2	136.4	261.1	95.6	433.0
Interest	69.8	90.3	79.4	90.9	85.8
Total General Government Debt service	455.7	428.5	590.3	402.3	817.0

Notes:

(1) Based on an exchange rate as at 31 December 2016 of €1 = MKD 61.4812.

(2) Based on an exchange rate as at 31 December 2017 of €1 = MKD 61.4907.

(3) Based on an exchange rate as at 31 December 2018 of €1 = MKD 61.4950.

(4) Based on an exchange rate as at 31 December 2019 of €1 = MKD 61.4856.

(5) Based on an exchange rate as at 31 December 2020 of €1 = MKD 61.6940.

Source: Ministry of Finance

Debt Service on External General Government Debt

North Macedonia has serviced its external general government debt on a regular and timely basis, and has historically arranged for prepayment of external debt initially issued on unfavourable terms.

In 2020, annual payments on external general government debt amounted to €516.3 million and included the repayment of a loan guaranteed by IBRD (Policy Based Guarantee) in the amount of €155.0 million, the repayment of the fourth Eurobond in the amount of €178.3 million and principal payments on outstanding external loans and interest payments on outstanding external loans and Eurobonds. The Government expects that payments of principal and interest on external government debt in 2021 and 2022 will total €709.6 million and €209.5 million, respectively.

Payments in 2021 are expected to include regular payments on outstanding loans, and repayment of the third Eurobond issuance in the amount of €500.0 million. Payments in 2022 are expected to include regular payments on outstanding loans.

As at 31 December 2020, 21.9% of the external general government debt was floating rate, and the remainder fixed rate. As at 31 December 2020, 24.5% of the domestic general government debt was floating rate while the remainder was fixed rate. For the same period, 22.9% of total general government debt was floating rate, while the remainder was fixed rate.

The following table sets out projected external general government debt payments for the periods indicated, not including the amount of the issuance of the Notes. The table does not include provisions for refinancing existing external general government debt as it matures.

External General Government Debt Payments for 2021-2023

	Principal payments	Interest payments	Total
		(€ million)	
Period			
2021[(1)]	605.4	104.2	709.6
2022[(2)]	102.3	107.2	209.5
2023[(2)]	592.2	107.6	699.8

Notes:

(1) Estimates based on the Supplementary Budget 2021.

(2) Estimates based on the revised FS21-23 (with prospects to 25).

Source: Ministry of Finance

Domestic General Government Debt

Domestic general government debt was issued for the first time in 1996. Since then, domestic bonds have been issued: (i) to compensate citizens of North Macedonia who lost foreign currency deposits held in the banking system of the former Yugoslav federation; (ii) as compensation for property nationalised on behalf of the State in the period from 1944 to 1991; and (iii) for the rehabilitation and privatisation of the banking system.

The general domestic government debt of North Macedonia consists of structural bonds, Treasury bills, bonds and municipal debt. As at 31 December 2020, domestic general government debt amounted to €2.13 billion (19.8% of GDP) and constituted 38.7% of total general government debt. As at 31 December 2020, commercial banks held 39.7% of outstanding government issued securities, pension funds held 41% of outstanding government issued securities while other entities held 19.3%. The average time to maturity of the domestic central government debt as at 31 December 2020 was 6.8 years. The following table sets out projected general government domestic debt payments for the periods indicated. The table does not include provisions for refinancing existing domestic general government debt as it matures.

	Principal payments	Interest payments	Total
		(€ million)	
Period			
2021[1]	99.5	49.9	149.4
2022[2]	76.0	58.2	134.2
2023[2]	196.6	64.0	260.6

Notes:

(1) Estimates based on the Budget 2021.

(2) Estimates based on the revised FS21-23 (with prospects to 25).

Source: Ministry of Finance

Maturity Structure of Government securities

	Proportion of Outstanding Government Securities	
	As at 31 December 2015	As at 31 December 2020
Treasury bond maturity		
3 months	1%	—
6 months	8%	0%
12 months	38%	25%
2 years	7%	4%
3 years	7%	10%
5 years	26%	7%
10 years	8%	9%
15 years	6%	36%
30 years	—	8%

Maturity Structure of Government securities, as at 31 December 2020

	Proportion of Outstanding Government Securities
Treasury bond maturity	
Short term Government securities	25.2%
Long term Government securities	74.8%

The following table sets out the breakdown of total domestic general government debt stock of North Macedonia as at the dates indicated.

	As at 31 December					
	2016	**2017**	**2018**	**2019**	**2020**	**Maturity**
			(€ million)			
Structural Bonds....	70.2	65.5	57.7	54.3	46.5	
Bond for selective credits	16.9	16.9	16.9	16.9	16.8	25 years
Bond for old foreign exchange saving.....................	—	—	—	—	—	10 years
Stopanska Banka Privatisation Bond(2)	—	—	—	—	—	
Denationalisation Bonds(1)..................	53.3	48.6	40.8	37.4	29.7	10 years
Treasury Bills and Bonds.....................	1,323.5	1,505.7	1,580.8	1,729.7	2,072.6	
Loans	0.0	0.0	0.0	0.0	0.0	
Municipal Debt......	11.2	10.5	11.0	9.3	14/4	
Total Domestic General Government Debt ..	1,404.9	1,581.7	1,649.4	1,793.3	2,133.5	
Government Guaranteed Domestic Debt.......	20.5	17.7	15.0	12.3	9.5	

Notes:

(1) Represents bonds issued as compensation for the property nationalised on behalf of the state in the period from 1944 to 1991. Eighteen issues of denationalisation bonds have taken place since 2002, each with a 2% interest rate, and further issues are expected in 2020 and 2021.

Source: Ministry of Finance

Domestic General Government Debt by Currency

Domestic general government debt is debt issued inside North Macedonia and, as of 31 December 2020, was denominated in Euro and Denars, with a breakdown of 37.6% and 62.4%, respectively. The share of Euro-denominated debt has decreased, primarily as a result an increasing volume of government issued securities denominated in Denars. The share of Euro-denominated debt is primarily as a result of the issuance of government securities denominated in MKD, but whose principal amount and coupon payments are linked to the EUR exchange rate. The debt raised through such foreign exchange-linked securities is recorded as Euro-denominated debt.

Government Guaranteed Domestic Debt

As at 31 December 2020, government guaranteed domestic debt amounted to €9.5 million, representing a decrease of €2.8 million compared to 31 December 2019.

Debt Management Strategy

As at 31 December 2020, total public debt was equal to 60.2% of GDP. However, the Government has reiterated its commitment to preserve the long-term sustainability of the country's debt levels. The Ministry of Finance manages the general government and public debt of the country. The Public Debt Management Strategy integrates the country's debt framework with the levels of general government and public debt and ensures full data consistency. The Public Debt Law sets out the preparation and the implementation of a medium-term Public Debt Management Strategy, which covers a period of three years and is adopted by the Government of the Republic of North Macedonia. Although there is a legal obligation for three-year projections for the debt level and the debt structure, the Ministry of Finance increases the transparency when managing public finances by including two additional years, i.e. projections for public debt trend in the period 2021-2025. Projections on debt stock and structure are in line with the projections in the Revised 2021-2023 Fiscal Strategy (with 2025 prospects). As a result of the economic crisis induced by COVID-19, most of the EU countries, as well as the countries in the region, have been forced to widen their budget deficits to maintain sufficient funds for managing the pandemic. For most of these economies, this has resulted in increased level of public debt by more than 10%. Analogously, in the course of 2020, the Republic of North Macedonia has experienced increased level of public debt by around 10%, approaching the maximum limit set under this Strategy. Medium-term projections presented in the Republic's strategy show that public debt will exceed the maximum threshold of 60% in the period 2021-2023. However, as a result of the Republic's fiscal consolidation measures, it is expected to stabilize in 2024, followed by a return to the stipulated limit of 60% of GDP in 2025.

Ratings

North Macedonia is assigned credit ratings by both Fitch and S&P.

The main factors on which the credit ratings of North Macedonia are based are its track record of coherent macroeconomic and financial policy, relatively moderate indebtedness (well below BB median) and its well-capitalised and stable banking sector. On 13 November 2020, Fitch affirmed 'BB+/B'long- and short-term foreign and local currency sovereign credit ratings of North Macedonia (with a negative outlook). On 19 February 2021, S&P affirmed the 'BB-/B' long- and short-term foreign and local currency sovereign credit ratings of North Macedonia (with a stable outlook).

TAXATION

Taxation of North Macedonia

The following is a summary of certain tax consequences of North Macedonia resulting from the purchase, ownership and disposition of the notes and is not intended to reflect the individual tax position of any beneficial owner. This summary is based upon the laws, regulations, rulings and decisions now in effect, all of which are subject to change.

Persons considering the purchase of the notes should consult their own tax advisers concerning the application of the tax laws of North Macedonia to their particular situations as well as any consequences of the purchase, ownership and disposition of the notes arising under the laws of any other taxing jurisdiction.

Non-resident Holders

A non-resident Holder of a Note will not be subject to the taxes of North Macedonia on receipt from the Republic of amounts payable in respect of principal or interest on the Notes.

A non-resident Holder generally should not be subject to any taxes of North Macedonia in respect of gains or other income realised on the sale or other disposition of the Notes outside the Republic.

A non-resident Holder which is a legal person or organisation should not be subject to withholding tax on any gain on sale or other disposal of the Notes even if payment is received from a source in the Republic.

Resident Holders

A Holder of a Note who is a physical or legal person resident in the Republic is subject to all applicable taxes of North Macedonia.

U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the "issue price" (as defined below under "—Original Issue Discount") in the initial offering and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws (such as estate or gift tax laws). The summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax rules (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad, U.S. holders that are required to take certain amounts into income no later than the time such amounts are reflected on an applicable financial statement or investors whose functional currency is not the U.S. dollar).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

General. Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes and original issue discount ("**OID**"), if any, accrued with respect to the Notes (as described below under "*—Original Issue Discount*") constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Foreign Currency Denominated Interest. The amount of income recognised with respect to an interest payment denominated in Euros by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in Euros in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within each taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service (the "**IRS**").

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in Euros, the accrual basis U.S. Holder will recognise U.S. source exchange gain or loss (taxable as U.S.-source ordinary income or loss) equal to any difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Original Issue Discount

Unless the Notes are treated as issued with less than a statutorily defined de minimis amount of OID, a U.S. Holder will be required to include a portion of the OID in gross income as interest in each taxable year or portion thereof in which the U.S. Holder holds the Notes even if the U.S. Holder has not received a cash payment in respect of the OID.

The Notes will not be treated as issued with less than a statutorily defined de minimis amount of OID if the amount of OID is equal to or more than 0.25 per cent. multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity from the issue date. The amount of a Note's OID is the excess of the Note's stated redemption price at maturity over its issue price. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. In general, the stated redemption price at maturity of a Note is the total of all payments provided by the Notes that are not payments of qualified stated interest. In general, an interest payment on a debt security is qualified stated interest if it is one of a series of stated interest payments on a debt security that are unconditionally payable at least annually at a single fixed rate.

U.S. Holders of Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Notes. The amount of OID includible in income by a U.S. Holder of a Note is the sum of the daily portions of OID with respect to the Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Note's adjusted issue price at the beginning of the accrual period and the Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of interest on the Note allocable to the accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period, and decreased by (y) the amount of payments previously made on the Note that were not interest payments.

OID for each accrual period will be determined in Euros and then translated into U.S. dollars by both a cash basis and accrual basis U.S. Holder in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "Payments of Interest". Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to any difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Sale, exchange, retirement or other taxable disposition

A U.S. Holder generally will recognise gain or loss on the sale, exchange, retirement or other taxable disposition of a Note equal to the difference between the amount realised on the sale, exchange, retirement or other taxable disposition and the U.S. Holder's adjusted tax basis in the Note, in each case as determined in U.S. dollars. U.S.

Holders should consult their own tax advisers about how to determine the U.S. dollar value for proceeds received on the sale, exchange, retirement or other taxable disposition of Notes that are not paid in U.S. dollars. A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. dollar cost increased by the amount of OID included in the U.S. Holder's income with respect to the Note and reduced by the amount of any principal paid on the Note. The amount realised does not include the amount attributable to accrued but unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in income.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange, retirement or other taxable disposition of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of sale, exchange, retirement or other taxable disposition and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the sale, exchange, retirement or other taxable disposition. Any remaining gain or loss recognised by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations.

Gain or loss realised by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a Note generally will be U.S. source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale, exchange, retirement or other taxable disposition of Notes.

Backup Withholding and Information Reporting

Payments of principal, interest and accruals of OID on, and the proceeds of sale, exchange, retirement or other taxable disposition of, the Notes, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments, including payments of accrued OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult with their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes, including requirements related to the holding of certain "specified foreign financial assets".

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG and J.P. Morgan Securities plc (together, the "**Joint Lead Managers**") have, in a subscription agreement dated 8 March 2021 (the "**Subscription Agreement**") and entered into between the Republic and the Joint Lead Managers upon the terms and subject to the conditions contained therein, agreed severally to subscribe and pay for the Notes at their issue price of 98.432% of their principal amount, in the amounts as follows:

	Principal amount of Notes (€)
Joint Lead Managers	
Citigroup Global Markets Limited	175,000,000
Deutsche Bank AG, London Branch	175,000,000
Erste Group Bank AG	175,000,000
J.P. Morgan Securities plc	175,000,000
Total	700,000,000

The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes. The Republic will also reimburse the Joint Lead Managers for certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain losses (including liabilities under the Securities Act), incurred in connection with the offering and issue of the Notes.

The Joint Lead Managers and their respective affiliates may have engaged in transactions with the Republic in the ordinary course of their banking business, including provision of loan financing, and the Joint Lead Managers have performed various investment banking, financial advisory and other services for the Republic, for which they receive customary fees, and the Joint Lead Managers and their respective affiliates may provide such services and receive such fees in the future. In addition, the debt service payments of North Macedonia in 2021 and 2022 are expected to include a repayment to Deutsche Bank of a loan amounting €12 million and a repayment to Erste Group Bank of a loan amounting to €6 million, in each case in relation to the Project for Building a Gas Pipeline System in Republic of North Macedonia.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Republic that it proposes to offer the Notes for resale (a) to persons they reasonably believe to be QIBs, within the meaning of Rule 144A under the Securities Act, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in "offshore transactions" (as defined in Rule 902(k) under the Securities Act) in accordance with Rule 903 of Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

To the extent that any Joint Lead Manager that is not a U.S. registered broker dealer intends to effect any sales of the Notes in the United States, it will do so only through its or their selling agents or one or more U.S. registered broker-dealers, which may be its affiliates, or otherwise as permitted by applicable U.S. law.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken that it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation. Each Dealer has represented and agreed that any offer, sale or delivery, of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with any Italian securities, tax and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time) and any other applicable laws and regulations;

(b) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

(c) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

The Republic of North Macedonia

Each Joint Lead Manager has represented, warranted or undertaken that it has not offered or sold and will not offer or sell the Notes to any resident of the Republic of North Macedonia other than through an authorized participant in accordance with the Foreign Exchange Law.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Offering Circular Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Joint Lead Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offering of the Notes.

Switzerland

The offering of the Notes in Switzerland is exempt from the requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("**FinSA**") because the Notes have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more and the Notes will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Circular does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Joint Lead Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

General

Each Joint Lead Manager has agreed to comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Republic nor such Joint Lead Manager shall have any responsibility therefore.

Neither the Republic nor any Joint Lead Manager represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

No action has been or will be taken in any jurisdiction by the Republic or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Notes has been authorised by the Republic of North Macedonia, acting through the Ministry of Finance, on the basis of a decision by the Government of the Republic of North Macedonia.

Listing of Notes

An application has been made to admit the Notes to listing on the Official List and to trading on the Market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around the Issue Date, subject only to the issue of the Notes.

Litigation

Except as disclosed in the section headed "*Legal Proceedings*" of this Offering Circular, the Republic is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on the Republic's financial position.

No Significant Change

Save as disclosed in "*Macedonian Economy – Recent Developments" and "Risk Factors - Risks related to the Republic - The outbreak of communicable diseases, including the recent COVID-19 pandemic has caused and is likely to continue to cause significant disruption to both the global economy and the Macedonian economy*", there has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2020.

Documents available for inspection

For so long as any of the Notes are outstanding, copies of the following documents will be available for inspection on the Issuer's website:

(i) this Offering Circular;

(ii) the Fiscal and Paying Agency Agreement; and

(iii) the 2021 Budget.

The Issuer shall have no obligation to update or supplement this Offering Circular after the end of the offer or admission to trading of the Notes.

Interested Persons

No person involved in the Offering has any interest in the Offering which is material to the Offering.

Yield

The yield to maturity of the Notes is 1.866%. The yield to maturity is calculated as at the pricing date on the basis of the Issue Price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes. It is not an indication of future yield.

Delivery of Global Notes

The Global Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. In respect of the Regulation S Notes, the ISIN is XS2310118893 and the common code is 231011889. In respect of the Rule 144A Notes the ISIN is XS2310119198 and the common code is 231011919.

The CFI and FISN will be set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the CFI or FISN.

The Legal Entity Identifier

The Legal Entity Identifier (LEI) code of the Issuer is 635400RD1N6RVNCE4958.

THE ISSUER

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