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FitchRatings

Sovereigns
North Macedonia

# Republic of North Macedonia

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

## Key Rating Drivers

**Negative Outlook:** Fitch Ratings' affirmation of the Republic of North Macedonia's Long-Term Issuer Default Ratings (IDRs) at 'BB+' with Negative Outlooks reflects continued material downside risks to growth and public finances following the significant pandemic shock and the indirect effects of the war in Ukraine.

**Weaker Growth:** Higher energy and food prices, and a slowdown in the EU (70% of exports) will lead growth to decelerate to 2.8% in 2022 from 4.0% in 2021. Fitch expects a modest pick-up to 3% in 2023, but downside risks stem from a prolonged conflict in Ukraine, continued problems of global manufacturing supply chains or the fallout from abrupt energy supply disruptions from Russia.

**Higher Inflation, External Deficits:** Supply-side factors in terms of high energy and food prices will lead to an average inflation of 6.3% in 2022 before easing to 3.9% in 2023. We forecast he current account deficit to widen to 5.7% of GDP in 2022, the highest since 2004, due to reduced export demand and higher energy import costs. We view the increase as temporary and the current account deficit should ease to 4.7% of GDP in 2023, in line with reduced energy imports and weaker fiscal impulse.

**Peg Anchors Macro-Financial Stability:** The long-standing de facto peg to the euro is well-anchored, despite the almost consecutive shocks of the pandemic and the war in Ukraine. Fitch believes that the central bank will continue normalisation of monetary policy to anchor inflation expectations and keep foreign-exchange (FX) pressures in check. The banking sector maintains strong fundamentals, but deposit euroisation remains higher (45%) than peers.

**Contingent Liquidity Support:** Fitch forecasts international reserves at EUR3.4 billion (3.4 months of current external payments (CXP) for 2022), as increased external borrowing will support external buffers. Near-term external liquidity risks are mitigated by the extension of the EUR400 million temporary repo facility with the ECB until January 2023 and the recent announcement that North Macedonia has requested a Precautionary and Liquidity Line (PLL) to the IMF, which could help channel additional official and external market financing.

**Higher Fiscal Deficits, Debt:** We forecast the general government deficit to rise to 6.5% 2022, reflecting anti-crisis measures and demands for wage increases, before declining to 4.8% in 2023. Higher deficits will push general government debt up to 56% of GDP in 2023. Most foreign-currency debt (75% of total) is denominated in euros and currency risks are mitigated by the longevity and credibility of the exchange-rate peg.

**New Government:** The new SD SM-led coalition government led by Prime Minister Dimitar Kovachevski faces high political polarisation and legislative gridlock. New governments in both Bulgaria and North Macedonia have expressed increased goodwill towards achieving a solution to remove Bulgaria's veto on the start of North Macedonia's EU accession negotiation process, the feasibility of a breakthrough in the near term is uncertain, as political space for both governments seems limited.

## Ratings

| Foreign Currency | |
|---|---|
| Long-Term IDR | BB+ |
| Short-Term IDR | B |

| Local Currency | |
|---|---|
| Long-Term IDR | BB+ |
| Short-Term IDR | B |
| Country Ceiling | BBB- |

| Outlooks | |
|---|---|
| Long-Term Foreign-Currency IDR | Negative |
| Long-Term Local-Currency IDR | Negative |

## Rating Derivation

| Component | |
|---|---|
| Sovereign Rating Model (SRM) | BB |
| Qualitative Overlay (QO) | +1 |
| Structural features | 0 |
| Macroeconomic | +1 |
| Public finances | 0 |
| External finances | 0 |
| Long-Term Foreign-Currency IDR | BB+ |

Source: Fitch Ratings

## Data

| | 2021 |
|---|---|
| GDP (USDbn) | 14 |
| Population (m) | 2.1 |

Source: Fitch Ratings

## Applicable Criteria

Sovereign Rating Criteria (April 2022)

Country Ceilings Criteria (July 2020)

## Related Research

Fitch Affirms North Macedonia at 'BB+'; Outlook Negative (April 2022)

Global Economic Outlook (March 2022)

Interactive Sovereign Rating Model

Fitch Fiscal Index – Analytical Tool

Click here for more Fitch Ratings content on the Republic of North Macedonia

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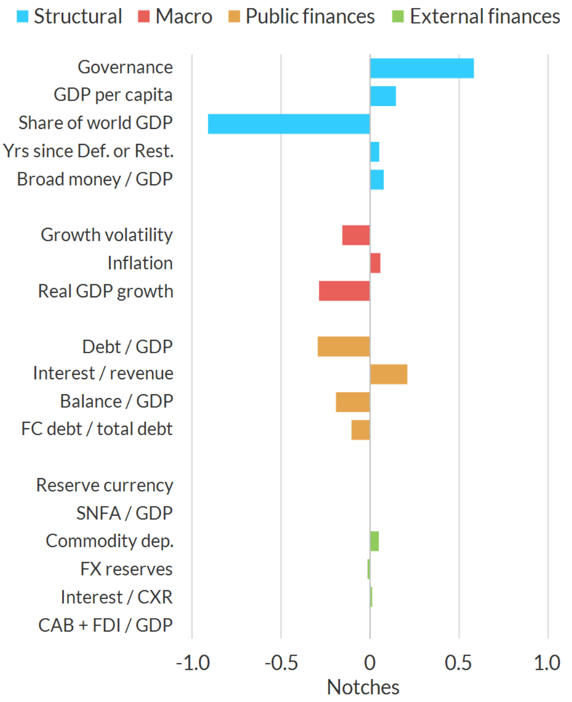
## Rating Summary

### Long-Term Foreign-Currency Issuer Default Rating: BB+

### Sovereign Rating Model: BB

**Contribution of variables, relative to BB Median**




### Qualitative Overlay: +1

**Adjustments relative to SRM data and output**

**Structural features:** No adjustment

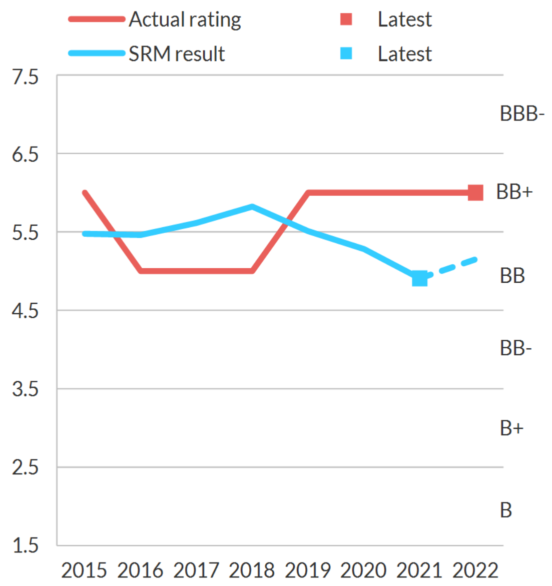
**Macroeconomic outlook, policies and prospects:** +1 notch to offset the deterioration in the SRM output driven by the pandemic and war in Ukraine shock, including from the growth volatility variable and high inflation. The deterioration of the GDP growth and volatility variables reflects a very substantial and unprecedented exogenous shock that has hit the vast majority of sovereigns, and Fitch currently believes that North Macedonia has the capacity to absorb it without lasting effects on its long-term macroeconomic stability.

**Public finances:** No adjustment.

**External finances:** No adjustment.

Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data
Source: Fitch Ratings

### Sovereign Rating Model Trend




### Rating Derivation History (last 10 reviews)

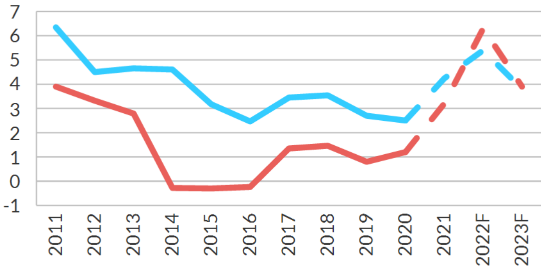
| Review Date | LT FC IDR | SRM Result[ab] | QO S | M | PF | EF |
|---|---|---|---|---|---|---|
| Latest | BB+ | BB | 0 | +1 | 0 | 0 |
| 5 Nov 21 | BB+ | BB | 0 | +1 | 0 | 0 |
| 7 May 21 | BB+ | BB | 0 | +1 | 0 | 0 |
| 13 Nov 20 | BB+ | BB | 0 | +1 | 0 | 0 |
| 15 May 20 | BB+ | BB+ | 0 | 0 | 0 | 0 |
| 13 Dec 19 | BB+ | BB+ | 0 | 0 | 0 | 0 |
| 14 Jun 19 | BB+ | BB+ | 0 | 0 | 0 | 0 |
| 18 Jan 19 | BB | BB+ | -1 | 0 | 0 | 0 |
| 20 Jul 18 | BB | BB+ | -1 | 0 | 0 | 0 |

[a] The latest rating uses the SRM result for 2021 in the chart (this will roll forward to 2022 in July 2022)
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay

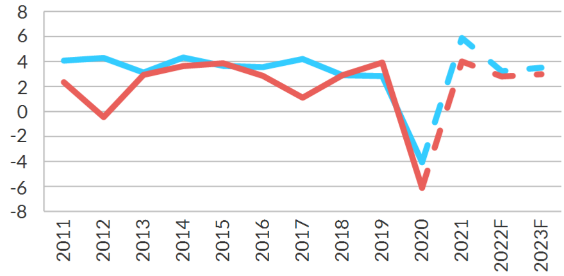
## Peer Analysis

North Macedonia    BB Median

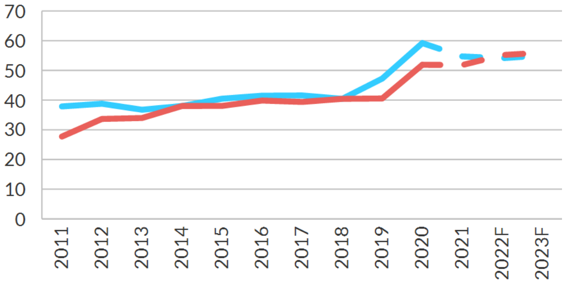
### Consumer Price Inflation
(annual avg, %)



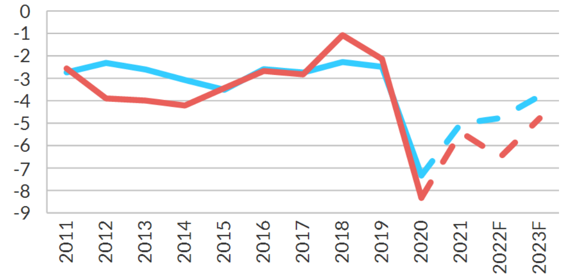

### Real GDP Growth
(%)



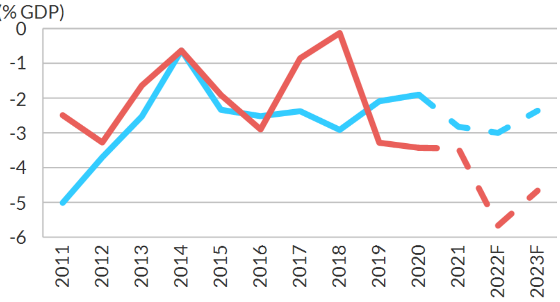

### Gross General Government Debt
(% GDP)



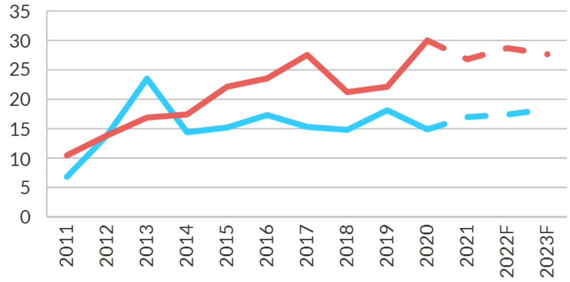

### General Government Balance
(% GDP)



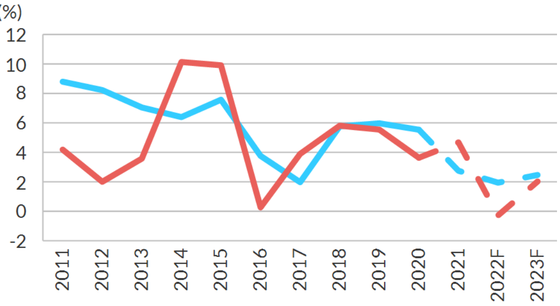

### Current Account Balance
(% GDP)



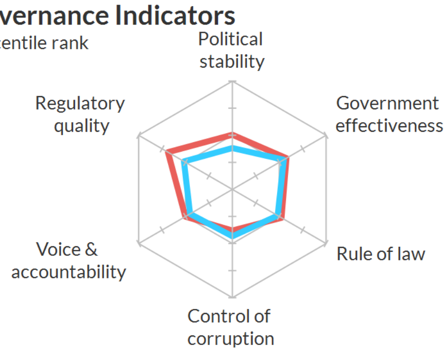

### Net External Debt
(% GDP)




### Real Private-Sector Credit Growth
(%)




### Governance Indicators
Percentile rank




Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

## Peer Analysis

| 2021[a] | North Macedonia | BB median | BBB median | B median |
|---|---|---|---|---|
| **Structural features** | | | | |
| GDP per capita (USD) [SRM] | 6,663 | 5,780 | 13,389 | 4,084 |
| Share in world GDP (%) [SRM] | 0.0 | 0.0 | 0.0 | 0.0 |
| Composite governance indicator (percentile, latest) [SRM][b] | 52.9 | 45.0 | 59.0 | 37.2 |
| Human development index (percentile, latest) | 56.9 | 53.5 | 67.3 | 35.8 |
| Broad money (% GDP) [SRM] | 72.0 | 47.8 | 61.1 | 36.7 |
| Private credit (% GDP, 3-year average) | 53.7 | 38.7 | 57.5 | 26.3 |
| Dollarisation ratio (% bank deposits, latest) | 40.6 | 40.5 | 16.6 | 30.2 |
| Bank system capital ratio (% assets, latest) | 16.8 | 16.3 | 15.5 | 16.1 |
| **Macroeconomic performance and policies** | | | | |
| Real GDP growth (%, 3-year average) [SRM] | 0.2 | 4.0 | 3.5 | 4.3 |
| Real GDP growth volatility (complex standard deviation) [SRM] | 3.5 | 2.9 | 3.3 | 3.3 |
| Consumer price inflation (%, 3-year average) [SRM] | 3.6 | 4.8 | 3.2 | 5.7 |
| Unemployment rate (%) | 15.7 | 8.8 | 7.9 | 8.2 |
| **Public finances (general government)[c]** | | | | |
| Balance (% GDP, 3-year average) [SRM] | -6.7 | -2.7 | -2.3 | -3.7 |
| Primary balance (% GDP, 3-year average) | -5.4 | -0.6 | -0.3 | -1.4 |
| Interest payments (% revenue, 3-year average) [SRM] | 4.2 | 9.0 | 7.0 | 8.7 |
| Gross debt (% revenue, 3-year average) | 168.2 | 158.4 | 141.2 | 226.2 |
| Gross debt (% GDP, 3-year average) [SRM] | 53.0 | 39.5 | 36.1 | 50.0 |
| Net debt (% GDP, 3-year average) | 47.1 | 32.6 | 30.2 | 42.3 |
| FC debt (% gross debt, 3-year average) [SRM] | 77.5 | 61.3 | 37.0 | 64.0 |
| **External finances[c]** | | | | |
| Current account balance (% GDP, 3-year average) | -4.2 | -2.7 | -2.0 | -3.9 |
| Current account balance + net FDI (% GDP, 3-year avg.) [SRM] | -1.5 | 0.7 | 0.3 | -1.3 |
| Commodity dependence (% CXR) [SRM] | 9.7 | 21.6 | 19.0 | 32.1 |
| Gross external debt (% GDP, 3-year average) | 81.7 | 44.8 | 55.4 | 48.9 |
| Net external debt (% GDP, 3-year average) | 28.5 | 10.7 | 9.7 | 19.4 |
| Gross sovereign external debt (% GXD, 3-year average) | 40.4 | 43.7 | 30.2 | 57.9 |
| Sovereign net foreign assets (% GDP, 3-year average) [SRM] | -2.7 | -2.4 | 2.1 | -15.3 |
| External interest service (% CXR, 3-year average) [SRM] | 2.1 | 4.0 | 4.2 | 3.8 |
| Foreign-exchange reserves (months of CXP) [SRM] | 4.0 | 4.4 | 4.9 | 3.9 |
| Liquidity ratio | 154.9 | 139.2 | 134.0 | 153.2 |

[a] 3-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page)
[c] See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

**Supplementary information**

BSI / MPI = n.a. / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch's most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = 2000. London Club commercial banks 1997.

The de facto exchange-rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Stabilised arrangement'.

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## Rating Factors

### Strengths

- A record of low inflation and financial stability, underpinned by a credible policy mix consistent with the longstanding exchange-rate peg to the euro.
- Governance and human development indicators are more favourable than the median of 'BB' category rated peers.
- Commodity dependence is low, reducing the country's vulnerability to shocks, but it is a highly open economy with a high dependence on the eurozone (70% of exports).
- North Macedonia's banking sector demonstrated resilience to prolonged periods of political uncertainty and significant economic shocks, such as from the coronavirus pandemic.

### Weaknesses

- The economy is exposed to exchange rate risk. About 75% of government debt is denominated in foreign currency, though this is predominately in euros and mitigated by the credibility of the exchange-rate peg. Euroisation is also present in the banking sector, accounting for around 45% of deposits and 41% of loans.
- Net external debt/GDP and highly negative international investment position are higher than the 'BB' median.
- Unemployment is structurally high, despite falling to 15.2% in 4Q21, reflecting a large informal economy and skills shortages.

| Rating | Sovereign |
|---|---|
| BBB- | Cyprus |
| | India |
| | Mexico |
| | Panama |
| | Romania |
| | Uruguay |
| | |
| BB+ | **North Macedonia** |
| | Azerbaijan |
| | Colombia |
| | Morocco |
| | Paraguay |
| | San Marino |
| | Serbia |
| | |
| BB | Aruba |
| | Georgia |
| | Greece |
| | Namibia |
| | Vietnam |

Source: Fitch Ratings

## Rating Sensitivities

### Factors that could, individually or collectively, lead to negative rating action/downgrade

- **Public Finances:** Materially higher than forecast general government debt/GDP over the medium term, for example, due to a weaker growth prospects or expectations of a more prolonged fiscal loosening.
- **Macro and External Finance:** Persistently high inflation and increased external vulnerabilities, for example due to a sustained period of large current account deficits net of FDI, which could exert pressure on foreign currency reserves and/or the currency peg against the euro.
- **Structural:** Adverse political developments affecting governance standards, the economy and EU accession progress.

### Factors that could, individually or collectively, lead to positive rating action/upgrade

- **Public Finances:** Greater confidence that general government debt/GDP will stabilise in the medium term, for example, due to economic recovery and fiscal consolidation.
- **Structural:** Further improvement in governance standards, reduction in political and policy risk, and progress towards EU accession.
- **Macro:** An improvement in medium-term growth prospects, for example, through implementation of structural economic reform measures.

## Forecast Summary

| | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F |
|---|---|---|---|---|---|---|
| **Macroeconomic indicators and policy** | | | | | | |
| Real GDP growth (%) | 2.9 | 3.9 | -6.1 | 4.0 | 2.8 | 3.0 |
| Unemployment (%) | 20.7 | 17.3 | 16.4 | 15.7 | 15.5 | 15.5 |
| Consumer price inflation (annual average % change) | 1.5 | 0.8 | 1.2 | 3.2 | 6.3 | 3.9 |
| Policy interest rate (annual average, %) | 2.9 | 2.3 | 1.5 | 1.3 | 2.3 | 3.0 |
| General government balance (% GDP) | -1.1 | -2.1 | -8.3 | -5.4 | -6.5 | -4.8 |
| Gross general government debt (% GDP) | 40.4 | 40.6 | 51.9 | 51.8 | 55.2 | 56.0 |
| MKD per USD (annual average) | 52.1 | 54.9 | 54.1 | 52.1 | 55.3 | 55.5 |
| Real private credit growth (%) | 5.8 | 5.5 | 3.6 | 4.7 | -0.3 | 2.0 |
| **External finance** | | | | | | |
| Merchandise trade balance (USDbn) | -2.1 | -2.2 | -2.1 | -2.8 | -3.3 | -3.3 |
| Current account balance (% GDP) | -0.1 | -3.3 | -3.4 | -3.5 | -5.7 | -4.7 |
| Gross external debt (% GDP) | 70.8 | 72.4 | 86.5 | 78.0 | 80.7 | 77.7 |
| Net external debt (% GDP) | 21.2 | 22.1 | 30.0 | 26.8 | 28.7 | 27.7 |
| External debt service (principal + interest, USDbn) | 1.3 | 0.7 | 1.2 | 1.6 | 1.0 | 1.6 |
| Official international reserves including gold (USDbn) | 3.3 | 3.7 | 4.1 | 4.1 | 3.8 | 3.8 |
| Gross external financing requirement (% int. reserves) | 39.1 | 28.0 | 38.7 | 44.3 | 38.0 | 53.1 |
| **Real GDP growth (%)** | | | | | | |
| US | 2.9 | 2.3 | -3.4 | 5.7 | 3.5 | 1.6 |
| China | 6.7 | 6.0 | 2.2 | 8.1 | 4.8 | 5.1 |
| Eurozone | 1.9 | 1.3 | -6.4 | 5.3 | 3.0 | 2.3 |
| World | 3.2 | 2.6 | -3.3 | 5.9 | 3.5 | 2.8 |
| **Oil (USD/barrel)** | 71.5 | 64.1 | 43.3 | 70.6 | 100.0 | 80.0 |

Source: Fitch Ratings

## Sources and Uses

### Public Finances (General government)

| (MKDbn) | 2022 | 2023 |
|---|---|---|
| **Uses** | **62.7** | **88.8** |
| Budget deficit | 51.0 | 40.1 |
| MLT amortisation | 11.8 | 48.6 |
| Domestic | 5.5 | 12.1 |
| External | 6.2 | 36.5 |
| **Sources** | **62.7** | **88.8** |
| Gross borrowing | 68.5 | 86.8 |
| Domestic | 26.6 | 33.7 |
| External | 41.9 | 53.1 |
| Privatisation | 0 | 0 |
| Other | 0 | 0 |
| Change in deposits | -5.8 | 2.0 |
| (- = increase) | | |

Source: Fitch Ratings

### External Finances

| (USDbn) | 2022 | 2023 |
|---|---|---|
| **Uses** | **1.6** | **2.0** |
| Current account deficit | 0.8 | 0.7 |
| MLT amortisation | 0.8 | 1.3 |
| Sovereign | 0.1 | 0.7 |
| Non-sovereign | 0.7 | 0.7 |
| **Sources** | **1.6** | **2.0** |
| Gross MLT borrowing | 1.5 | 1.8 |
| Sovereign | 0.7 | 0.9 |
| Non-sovereign | 0.8 | 0.8 |
| FDI | 0.4 | 0.5 |
| Other | -0.6 | -0.3 |
| Change in FX reserves | 0.3 | 0.1 |
| (- = increase) | | |

Source: Fitch Ratings

## Credit Developments

### Ukraine War Will Have Impact through Higher Import Prices and Weaker Export Demand

The indirect impact of the war in Ukraine and sanctions against Russia will lead to higher inflation, wider current account and fiscal deficits, and lower growth via increased uncertainty, higher energy and food prices, and lower growth in the eurozone (70% of exports). North Macedonia is a net energy importer (mainly electricity) and is wholly dependent on Russian gas imported via Bulgaria. Natural gas accounts for about 30% of electricity generation, and some industries, such as like cement and steel, as well as heating and electricity for the capital Skopje are dependent on gas. This vulnerability is mitigated by greater reliance on fossil fuels for electricity generation. The government plans to increase domestic production of coal.

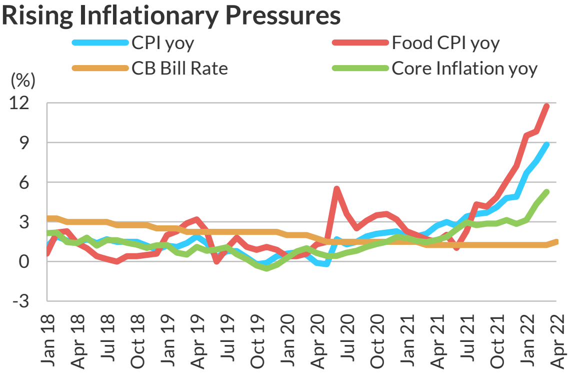
Growth rebounded to 4% in 2021 supported by external demand and private consumption, but net external trade turned negative in 4Q21 due to higher energy imports and supply-chain disruptions. We expect this trend to continue in 2022. Although the European automotive industry, an important market for North Macedonia's exports, slowdown constitutes an additional headwind to net exports, its impact on domestic economic activity will be partly balanced by the industry's high import content and limited direct linkages to the local economy. Fitch forecasts growth will slow to 2.8% in 2022, as the decline in net effective external demand will be partly balanced by private consumption cushioned by government support measures, wage increases, credit growth and the resilience of the labour market, while investment will be supported by inventory build-up in the first part of the year and public investment in 2H22.

Fitch expect a modest pick-up in growth to 3% in 2023 reflecting some easing of geopolitical risks and energy price pressures, gradual fiscal consolidation and continued government emphasis on public investment. Nevertheless, downside risks to the growth outlook stem from a prolonged conflict in Ukraine, continued problems of global manufacturing supply chains or abrupt energy supply disruptions, such as Russia's recently announced cut for Poland and Bulgaria. Although re-intensification of the Covid-19 pandemic does not represent an immediate risk, vaccination hesitancy is high with only about 40% of the targeted population fully vaccinated in mid-April.

### Higher Inflation to Challenge Accommodative Monetary Policy Stance

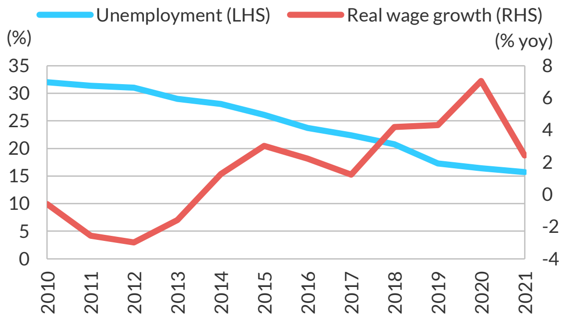
Inflation climbed to 8.8% in March reflecting supply-side factors in terms of rising energy and food prices (11.4% yoy) which combined account for half of the CPI basket. The government also increased electricity prices by 10% at the beginning of the year. Core inflation rose to 5.3% in March and inflation expectations also increased (average 6.5% for 2022). Fitch expects inflation to average 6.3% in 2022, the highest level since 2000, before easing to 3.9% in 2023.

### Rising Inflationary Pressures




Source: Fitch Ratings, NBRM & Haver

### Labour Market Dynamics




Source: Fitch Ratings & State Statistics Office

The National Bank of the Republic of North Macedonia raised its key policy rate by 25bp to 1.5% in April. In our view, continued normalisation of monetary policy is highly likely to anchor inflation expectations, the risk of second-round effects, including from domestic wage growth, and the bank's commitment to keep FX pressures in check. The government increased the minimum wage by 18.5% in March and pay rises for public-sector workers, including from the education and health sectors, are likely.

The banking sector maintains strong fundamentals after the withdrawal of pandemic-related relief measures in 2021. Capitalisation (17.3% at end-2021 with Tier 1 capital of 15.8%) and profitability (return on equity of 12.9%) are adequate. Non-performing loans (NPLs) declined slightly to 3.1% at end-March (end-2021: 3.2%) reflecting 4.1% NPLs for corporates and 2% for households. NPL provisions are high at 134%. Financial dollarisation remains high (at 45% of deposits and 41% of loans) relative to peers. The majority of the sector is foreign-owned.

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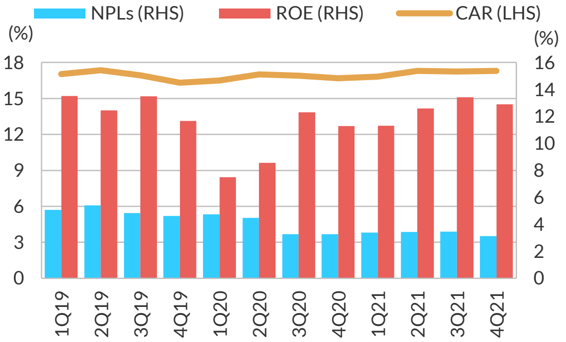
Banks' direct exposure to Russia or Ukraine is non-existent and indirect exposure through is deemed to be minimal. Deposits fell 1.7% in March reflecting the increased geopolitical tensions, but Fitch understands these have stabilised in recent weeks. After expanding by 8% in 2020, private-sector credit growth maintained strong pace in 1Q22 reaching 9.8% yoy in March supported by both corporate loans (12%) and households (8%).

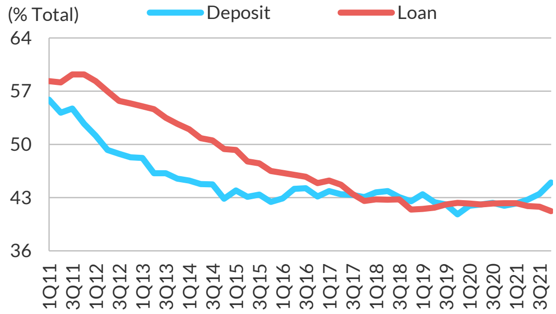
**Resilient Banking Sector**




Source: Fitch Ratings & NBRNM

**Financial Eurization Dynamics**

FC-linked and denominated




Source: Fitch Ratings & NBRNM

### Higher External Deficit, Stable International Reserves

The current account deficit widened to 3.5% of GDP in 2021 from 3.4% in 2020. Private transfers rose to 16% of GDP in 2021, mitigating the widening of the trade deficit to 20% of GDP due to higher energy imports and build-up of inventories. We now forecast that reduced export demand and higher energy import costs will lead to the current account deficit widening to 5.7% of GDP, the highest level since 2004. We view the increased external deficit as temporary and the current account deficit should ease to 4.7% of GDP in 2023 in line with reduced energy imports and lower fiscal impulse. Net FDI rose to 3.7% of GDP 2021, fully financing the deficit similar to pre-pandemic years. FDI will average 3.3% in 2022-2023 and remain an important source of external financing.

The National Bank's net sales reached EUR100 million in 2021 and higher energy imports and increased uncertainty leading to increased domestic demand for FX (most notably in March). International reserves reached EUR3.6 billion at end-2021 but declined to EUR3.3 billion in March and we forecast reserves to finish the year at EUR3.4 billion (equivalent to 3.4 months of CXP, as the government will likely increase external borrowing to cover its increased financing needs and also support external buffers. Near-term external liquidity risks are further mitigated by the extension of the EUR400 million temporary repo facility with the ECB until January 2023 and the recent announcement that North Macedonia has requested a two-year PLL to the IMF, which could lead to lower external borrowing costs and facilitate additional official financing. The country entered a similar programme in 2011.

### Temporary Reversal in Fiscal Consolidation

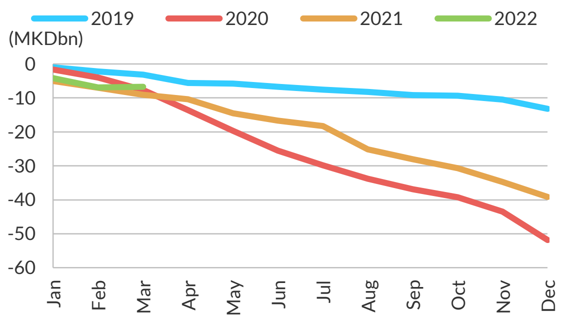
North Macedonia general government deficit fell to 5.4% in 2021, from 8.3% in 2020, outperforming the revised government budget deficit of 6.5% of GDP. This was due to strong revenue growth (17%) and lower-than-budgeted (75%) capital spending execution despite this increasing by 45%. In addition to pandemic-support measures (1.3% of GDP), the government also directed current spending to cushion the impact of energy prices.

In March, the government introduced a package of 26 measures estimated at EUR400 million (3.2% of projected GDP) to reduce the impact of rising food and energy prices on the population, but also support companies adversely affected by the crisis. The package includes temporary reduction in VAT to 0% from 5% for essential food items, continuation of reduced VAT (5% from 18%) for electricity consumption until end-2022, reduced excises on certain fuel derivatives' imports (under certain market conditions) and liquidity support to SMEs.

Continued support for the electricity sector (EUR86 million, or 0.7% of GDP, in 1Q22) and for agricultural sector will also contribute to the 2022 deficit. The government will also compensate (for the third year) private companies for the increase in minimum wages by temporarily subsidising the corresponding increases in social contributions. This is estimated at EUR23 million (0.2% of GDP) for 2022. In addition to a three-month boost of MKD1,000 for pensioners, authorities have updated the methodology for the calculation of pensions (half dependent on CPI and half on average wage growth). Authorities expect this additional spending could be partly covered in 2022 with accumulated pension fund deposits. Finally, demands for additional wage increases from education, health and public administration workers will put more pressure on the wage bill.

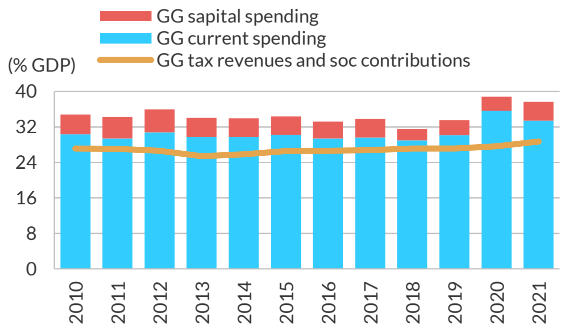
Fitch now expects the fiscal deficit to increase to 6.5% of GDP in 2022 (4.3% under the budget), as additional spending will be partly accommodated by still strong revenue growth (16% yoy in 1Q22;7.4% in the budget), continued under-execution in capital spending (4.9% of GDP projected in the budget). The government has also sought to mitigate the impact on the budget by instructing budget entities to cut spending on goods and services (8% of the total budget) by 10%. Data for the 1Q22 show that the deficit reached MKD6.7 billion (1.3% of projected 2022 GDP).

### Fiscal Performance




Source: Fitch Ratings & Ministry of Finance

### Spending and Revenue Trends




Source: Fitch Ratings & Ministry of Finance

We forecast the general government deficit to decline to 4.8% in 2023 (compared with 3.5% in the current 2022-2026 fiscal strategy strategy) reflecting the withdrawal of such temporary measures as lower VAT rates and reduced support for the electricity sector. Fiscal consolidation is vulnerable to lower economic growth, and failure to contain current spending (33% of GDP in 2021 and 89% of total general government spending) including the expected increase in public sector wages and pensions indexation. Authorities estimate that the 1.4pp lower growth (on average in 2022-2026) could lead to a 0.8pp increase in the fiscal deficit.

The new organic budget law remains in parliament since early 2021 and the timing of a second vote for approval remains uncertain. The law would upgrade the fiscal framework, including a formal fiscal rule-setting deficit and debt ceilings compatible with Maastricht criteria. The requested IMF PLL programme could boost the commitment of North Macedonia to fiscal consolidation in the near term by outlining a credible fiscal strategy maintaining the government's objective of increasing public investment, but also setting out specific measures to support revenue growth and keep current spending in check.

The general government debt declined slightly to 51.8% of GDP in 2021 from 51.9% in 2020. This was better than our previous expectation of 53%, due to higher than projected nominal GDP growth (10.3%) and lower-than-budgeted deficit and the use of the majority of the IMF's SDR allocation (1.4% of GDP) for budget financing purposes. Nevertheless, we forecast that higher deficits in 2022-2023 will push general government debt up to 56% in 2023. Government guarantees of public entities (8.6% of GDP end-2021) are mainly related to road projects (6.1% of GDP).. North Macedonia has also made steady progress in increasing the share of fixed-rate instruments in the domestic market (78% at end-2021) and T-bills account for 8.8% of total general government debt. North Macedonia does not have Eurobond maturities in 2022 but is likely to have to tap the market to roll over 2023 and 2024 payments.

## New Coalition Government, Start of EU Accession Talks Still Uncertain

After the resignation of Prime Minister Zoran Zaev in December 2021, a new coalition government took office in January with Kovachevski as PM. The new coalition has 63 MPs (out of 120), but increased political polarisation has led to a legislative gridlock with difficulty in moving ahead with legislation, including the Organic Budget Law, or appointments of judges to the constitutional court or ambassadors.

North Macedonia continues to demonstrate commitment towards greater integration with Europe. The government has condemned the Russian invasion of Ukraine, joined the EU sanctions against Russia and expelled Russian diplomats. The country became a NATO member in 2020 and will assume the OSCE chairmanship in 2023.

Both the new governments in Bulgaria and North Macedonia have expressed increased goodwill towards achieving a solution to remove Bulgaria's veto on the start of North Macedonia's EU accession negotiation process. Nevertheless, the feasibility of a breakthrough in the near term is uncertain, as political space seems limited due to coalition politics in Bulgaria, and increased support for the opposition and growing disillusionment with the delay in the start of the EU negotiation process in North Macedonia. Moreover, the recent visit of high-ranking Bulgarian officials, including the new prime minister, to North Macedonia for the opening of a cultural centre with the name of a controversial historical figure has led to a new public diplomatic spat.

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## Public Debt Dynamics

According to Fitch's baseline projections, GGGD should peak at 58% of GDP starting in 2026. The main risk to debt sustainability would be a failure to reduce the primary budget deficit and weaker growth. We assume that part of the external borrowing in 2022 will be directed to build Treasury cash buffers and support international reserves.

### Debt Dynamics – Fitch's Baseline Assumptions

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| Gross general government debt (% of GDP) | 51.9 | 51.8 | 55.2 | 56.0 | 57.3 | 57.8 | 57.9 |
| Primary balance (% of GDP) | -7.1 | -4.1 | -5.0 | -3.3 | -2.9 | -2.0 | -1.5 |
| Real GDP growth (%) | -6.1 | 4.0 | 2.8 | 3.0 | 3.5 | 3.5 | 3.5 |
| Average nominal effective interest rate (%) | 2.9 | 2.7 | 2.2 | 2.4 | 2.6 | 2.8 | 3.0 |
| MKD/USD (annual average) | 54.1 | 52.1 | 55.3 | 55.5 | 55.5 | 55.5 | 55.5 |
| GDP deflator (%) | 0.9 | 6.0 | 5.2 | 4.2 | 2.0 | 2.0 | 2.0 |
| Stock-flow adjustments (% of GDP) | 0.0 | 0.0 | -0.8 | 0.1 | 0.0 | 0.0 | 0.0 |

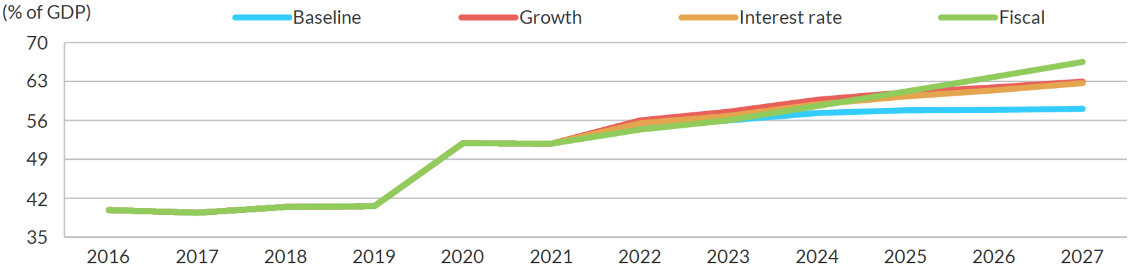
Source: Fitch Ratings

### Debt Sensitivity Analysis: Fitch's Scenario Assumptions

| | |
|---|---|
| Growth | GDP growth 1.6% lower (half standard deviation lower) |
| Interest rate | Marginal interest rate 250bp higher |
| Fiscal | Stable primary balance deficit of 4.1% of GDP starting 2021 |

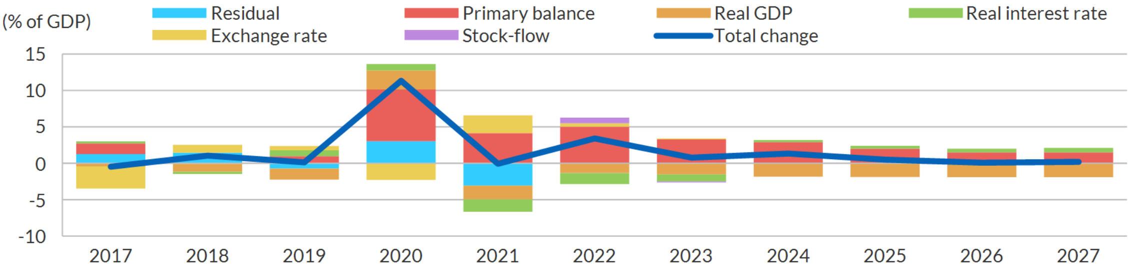
Source: Fitch Ratings

### Sensitivity Analysis
Gross general government debt




Source: Fitch Ratings, Fitch Debt Dynamics Model

### Baseline Scenario: Debt Creating Flows
Change in gross general government debt




Source: Fitch Ratings, Fitch Debt Dynamics Model

### About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

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## Data Tables

### General Government Summary

| (% GDP) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 31.0 | 30.6 | 31.0 | 30.4 | 31.4 | 30.5 | 32.3 | 31.6 | 31.8 |
| Expenditure | 34.4 | 33.2 | 33.8 | 31.5 | 33.5 | 38.9 | 37.7 | 38.2 | 36.6 |
| o/w interest payments | 1.2 | 1.2 | 1.4 | 1.2 | 1.2 | 1.2 | 1.3 | 1.5 | 1.5 |
| Interest payments (% revenue) | 3.8 | 3.8 | 4.4 | 3.9 | 3.7 | 4.0 | 3.9 | 4.7 | 4.7 |
| Primary balance | -2.3 | -1.5 | -1.5 | 0.1 | -1.0 | -7.1 | -4.1 | -5.0 | -3.3 |
| Overall balance | -3.4 | -2.7 | -2.8 | -1.1 | -2.1 | -8.3 | -5.4 | -6.5 | -4.8 |
| Gross government debt | 38.1 | 39.9 | 39.4 | 40.4 | 40.6 | 51.9 | 51.8 | 55.2 | 56.0 |
| % of government revenue | 122.9 | 130.4 | 127.2 | 133.0 | 129.3 | 169.9 | 160.5 | 174.3 | 175.7 |
| Domestic debt | 14.9 | 14.5 | 15.7 | 15.3 | 15.9 | 20.1 | 20.7 | 21.9 | 22.9 |
| External debt | 23.1 | 25.3 | 23.6 | 25.1 | 24.6 | 31.8 | 31.1 | 33.3 | 33.0 |
| Local currency | 9.9 | 8.8 | 8.5 | 8.6 | 9.9 | 12.2 | 12.1 | 12.9 | 13.1 |
| Foreign currency | 28.2 | 31.0 | 30.8 | 31.8 | 30.6 | 39.7 | 39.7 | 42.2 | 42.8 |
| Central government deposits | 4.9 | 5.7 | 3.8 | 5.6 | 4.8 | 6.9 | 5.2 | 5.6 | 5.0 |
| Net government debt | 33.1 | 34.1 | 35.6 | 34.8 | 35.7 | 45.0 | 46.6 | 49.6 | 51.0 |
| Financing |  | 2.7 | 2.8 | 1.1 | 2.1 | 8.3 | 5.4 | 6.5 | 4.8 |
| Domestic borrowing |  | 0.5 | 1.8 | 0.6 | 1.3 | 3.3 | 2.5 | 2.7 | 2.6 |
| External borrowing |  | 3.6 | -0.7 | 3.0 | 0.7 | 5.8 | 2.2 | 4.6 | 2.0 |
| Other financing |  | -1.4 | 1.8 | -2.5 | 0.2 | -0.7 | 0.6 | -0.7 | 0.2 |
| Change in deposits (- = increase) |  | -1.1 | 1.8 | -2.1 | 0.5 | -1.8 | 1.0 | -0.7 | 0.2 |
| Privatisation |  | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other |  | -0.3 | 0.0 | -0.4 | -0.4 | 1.1 | -0.3 | -0.0 | 0.0 |

Source: Fitch Ratings, Ministry of Finance

## Balance of Payments

| (USDbn) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F |
|---|---|---|---|---|---|---|---|---|---|
| Current account | -0.2 | -0.3 | -0.1 | -0.0 | -0.4 | -0.4 | -0.5 | -0.8 | -0.7 |
| % GDP | -1.9 | -2.9 | -0.9 | -0.1 | -3.3 | -3.4 | -3.5 | -5.7 | -4.7 |
| Goods | -2.0 | -2.0 | -2.0 | -2.1 | -2.2 | -2.1 | -2.8 | -3.3 | -3.3 |
| Services | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 |
| Primary income | -0.3 | -0.4 | -0.4 | -0.5 | -0.6 | -0.5 | -0.7 | -0.7 | -0.7 |
| Secondary income | 1.8 | 1.7 | 1.9 | 2.1 | 2.0 | 1.6 | 2.4 | 2.5 | 2.6 |
| Capital account | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account | 0.0 | -0.7 | 0.1 | -0.6 | -0.8 | -0.5 | -0.8 | -0.5 | -0.6 |
| Direct investment | -0.2 | -0.3 | -0.2 | -0.7 | -0.4 | -0.2 | -0.5 | -0.4 | -0.5 |
| Portfolio investment | -0.1 | -0.5 | 0.0 | -0.4 | 0.2 | -0.3 | -0.1 | -0.4 | -0.2 |
| Derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 0.3 | 0.1 | 0.2 | 0.5 | -0.5 | -0.0 | -0.1 | 0.3 | 0.0 |
| Net errors and omissions | -0.0 | -0.0 | -0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| Change in reserves (+ = increase) | -0.2 | 0.4 | -0.2 | 0.7 | 0.4 | 0.1 | 0.4 | -0.3 | -0.1 |
| International reserves, incl. gold | 2.5 | 2.8 | 2.8 | 3.3 | 3.7 | 4.1 | 4.1 | 3.8 | 3.8 |
| Liquidity ratio (%) | 175.2 | 182.9 | 193.7 | 142.5 | 213.3 | 173.1 | 154.9 | 179.2 | 156.9 |
| Memo | | | | | | | | | |
| Current external receipts (CXR) | 6.9 | 7.5 | 8.5 | 10.1 | 10.1 | 9.1 | 11.8 | 12.6 | 13.6 |
| Current external payments (CXP) | 7.1 | 7.8 | 8.6 | 10.1 | 10.5 | 9.5 | 12.3 | 13.5 | 14.3 |
| CXR growth (%) | -11.7 | 7.7 | 13.8 | 18.7 | 0.2 | -9.6 | 29.6 | 6.9 | 7.2 |
| CXP growth (%) | -10.1 | 9.1 | 10.5 | 17.6 | 4.1 | -9.2 | 29.0 | 9.3 | 6.0 |
| Gross external financing requirement | 1.0 | 1.0 | 0.7 | 1.1 | 0.9 | 1.4 | 1.8 | 1.6 | 2.0 |
| % International reserves | 34.7 | 39.5 | 26.1 | 39.1 | 28.0 | 38.7 | 44.3 | 38.0 | 53.1 |
| Net external borrowing | 0.3 | 0.9 | 0.2 | 0.6 | 0.6 | 0.8 | 1.3 | 0.9 | 0.6 |

Source: Fitch Ratings, IMF

Not for redistribution



## External Debt and Assets

| (USDbn) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F |
|---|---|---|---|---|---|---|---|---|---|
| Gross external debt | 6.9 | 7.6 | 8.8 | 9.0 | 9.1 | 10.5 | 10.8 | 11.4 | 11.8 |
| % GDP | 68.3 | 71.2 | 78.0 | 70.8 | 72.4 | 86.5 | 78.0 | 80.7 | 77.7 |
| % CXR | 99.2 | 101.9 | 103.8 | 89.1 | 90.3 | 114.8 | 91.4 | 90.3 | 86.7 |
| Short-term debt (% GXD) | 13.3 | 13.0 | 14.0 | 13.8 | 14.3 | 14.9 | 16.1 | 12.3 | 12.2 |
| By debtor | | | | | | | | | |
| Sovereign | 2.4 | 2.7 | 3.1 | 3.3 | 3.2 | 4.1 | 4.3 | 4.8 | 5.1 |
| Monetary authorities | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 0.3 | 0.3 |
| General government | 2.3 | 2.6 | 3.1 | 3.2 | 3.1 | 4.0 | 3.8 | 4.5 | 4.8 |
| Banks | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.9 | 0.9 | 1.0 | 1.1 |
| Other sectors | 3.9 | 4.2 | 5.0 | 5.0 | 5.1 | 5.5 | 5.6 | 5.6 | 5.6 |
| Gross external assets (non-equity) | 4.6 | 5.1 | 5.7 | 6.3 | 6.3 | 6.9 | 7.1 | 7.4 | 7.6 |
| Sovereign | 2.5 | 2.8 | 2.8 | 3.3 | 3.7 | 4.1 | 4.2 | 3.8 | 3.8 |
| International reserves, incl. gold | 2.5 | 2.8 | 2.8 | 3.3 | 3.7 | 4.1 | 4.1 | 3.8 | 3.8 |
| Other sovereign assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Banks | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 | 0.8 | 0.8 | 0.9 | 1.0 |
| Other sectors | 1.5 | 1.6 | 2.1 | 2.2 | 2.0 | 2.0 | 2.1 | 2.6 | 2.9 |
| Net external debt | 2.2 | 2.5 | 3.1 | 2.7 | 2.8 | 3.6 | 3.7 | 4.1 | 4.2 |
| % GDP | 22.1 | 23.5 | 27.5 | 21.2 | 22.1 | 30.0 | 26.8 | 28.7 | 27.7 |
| Sovereign | -0.1 | -0.0 | 0.3 | 0.0 | -0.4 | -0.0 | 0.1 | 1.0 | 1.3 |
| Banks | -0.1 | -0.1 | -0.1 | -0.2 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other sectors | 2.4 | 2.6 | 2.9 | 2.8 | 3.2 | 3.5 | 3.5 | 3.0 | 2.7 |
| International investment position | | | | | | | | | |
| Assets | 5.0 | 5.5 | 6.2 | 6.8 | 6.9 | 7.6 | 8.0 | 8.3 | 8.6 |
| Liabilities | 10.5 | 11.3 | 13.2 | 13.7 | 14.1 | 16.1 | 16.3 | 17.2 | 17.7 |
| Net | -5.6 | -5.9 | -7.0 | -6.9 | -7.2 | -8.5 | -8.3 | -8.9 | -9.2 |
| Net sovereign | 0.1 | 0.0 | -0.3 | -0.0 | 0.4 | 0.0 | -0.1 | -1.0 | -1.3 |
| % GDP | 1.1 | 0.2 | -3.1 | -0.3 | 3.4 | 0.0 | -0.8 | -7.2 | -8.8 |
| External debt service (principal + interest) | 1.0 | 0.8 | 0.8 | 1.3 | 0.7 | 1.2 | 1.6 | 1.0 | 1.6 |
| Interest (% CXR) | 2.1 | 2.2 | 2.0 | 2.0 | 1.9 | 2.3 | 2.0 | 2.1 | 2.1 |

Source: Fitch Ratings, central bank, IMF, World Bank

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## Government Debt Service Schedule on Medium- and Long-Term Debt at April-2022

| (EURm) | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| **External debt amortisation** | **98.3** | **589.4** | **194.6** | **762.5** | **943.4** |
| Official bilateral | 5.6 | 6.1 | 5.7 | 9.3 | 12.5 |
| Multilateral | 92.7 | 133.4 | 188.9 | 253.1 | 230.9 |
| Bonds | 0.0 | 450.0 | 0.0 | 500.0 | 700.0 |
| **External interest** | **105.2** | **105.2** | **96.9** | **109.5** | **96.9** |
| | | | | | |
| **Domestic debt amortisation** | **89.9** | **213.1** | **306.0** | **157.3** | **398.8** |
| **Domestic interest** | **58.6** | **63.5** | **67.5** | **72.7** | **77.8** |
| | | | | | |
| **Total government debt service** | **352.0** | **971.2** | **665.0** | **1,102.0** | **1,516.9** |

Source: Fitch Ratings, Ministry of Finance, central bank

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## Full Rating Derivation

### Long-Term Foreign-Currency Issuer Default Rating (SRM + QO) BB+

| Sovereign Rating Model | | | | | Applied Rating[d] | | | BB |
|---|---|---|---|---|---|---|---|---|
| | | | | | Model result and predicted Rating | | | 4.91 = BB |
| Input Indicator | Weight (%) | 2020 | 2021 | 2022 | Adjustment to final data | Final data | Coefficient | Output (notches) |
| **Structural features** | | | | | | | | **3.75** |
| Governance indicators (percentile) | 20.3 | n.a. | 52.9 | n.a. | - | 52.9 | 0.074 | 3.91 |
| GDP per capita (USD) | 13.3 | n.a. | 6,663 | n.a. | Percentile | 37.3 | 0.042 | 1.55 |
| Nominal GDP (% world GDP) | 13.2 | n.a. | 0.02 | n.a. | Natural log | -4.2 | 0.596 | -2.50 |
| Most recent default or restructuring | 5.0 | n.a. | 2000 | n.a. | Inverse 0-1[a] | 0.0 | -2.017 | -0.02 |
| Broad money (% GDP) | 1.4 | n.a. | 72.0 | n.a. | Natural log | 4.3 | 0.188 | 0.81 |
| **Macroeconomic performance, policies and prospects** | | | | | | | | **-1.22** |
| Real GDP growth volatility | 5.1 | n.a. | 3.5 | n.a. | Natural log | 1.2 | -0.815 | -1.02 |
| Consumer price inflation | 2.9 | 1.2 | 3.2 | 6.3 | 3-yr avg.[b] | 3.8 | -0.058 | -0.22 |
| Real GDP growth | 2.4 | -6.1 | 4.0 | 2.8 | 3-yr avg. | 0.2 | 0.076 | 0.02 |
| **Public finances** | | | | | | | | **-2.16** |
| Gross general govt debt (% GDP) | 8.3 | 51.9 | 51.8 | 55.2 | 3-yr avg. | 53.0 | -0.022 | -1.16 |
| General govt interest (% revenue) | 4.5 | 4.0 | 3.9 | 4.7 | 3-yr avg. | 4.2 | -0.043 | -0.18 |
| General govt fiscal balance (% GDP) | 2.6 | -8.3 | -5.4 | -6.5 | 3-yr avg. | -6.7 | 0.048 | -0.32 |
| FC debt (% of total general govt debt) | 2.4 | 82.5 | 73.4 | 76.6 | 3-yr avg. | 77.5 | -0.006 | -0.50 |
| **External finances** | | | | | | | | **0.06** |
| Reserve currency (RC) flexibility | 7.8 | n.a. | 0.0 | n.a. | RC score 0 - 4.5[c] | 0.0 | 0.549 | 0 |
| SNFA (% of GDP) | 7.3 | 0.0 | -0.8 | -7.2 | 3-yr avg. | -2.7 | 0.011 | -0.03 |
| Commodity dependence | 1.1 | n.a. | 9.7 | n.a. | Latest | 9.7 | -0.004 | -0.04 |
| FX reserves (months of CXP) | 1.8 | n.a. | 4.0 | n.a. | n.a. if RC score> 0 | 4.0 | 0.036 | 0.14 |
| External interest service (% CXR) | 0.4 | 2.3 | 2.0 | 2.1 | 3-yr avg. | 2.1 | -0.006 | -0.01 |
| CAB + net FDI (% GDP) | 0.1 | -2.0 | 0.2 | -2.7 | 3-yr avg. | -1.5 | 0.001 | -0.00 |
| **Intercept Term (constant across all sovereigns)** | | | | | | | | **4.49** |

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases
Source: Fitch Ratings

| Qualitative Overlay (notch adjustment, range +/-3) | +1 |
|---|---|
| Structural features | 0 |
| Macroeconomic outlook, policies and prospects | +1 |
| Public finances | 0 |
| External finances | 0 |

### About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

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## Supplementary Ratings

### Local-Currency Rating

North Macedonia's Long-Term Local-Currency IDR is line with the Long-Term Foreign-Currency IDR. In Fitch's view, neither of the key factors cited in the criteria that would support an upward notching of the Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR is present: strong public finance fundamentals relative to external finances; or previous preferential treatment of local-currency creditors.

### Country Ceiling

North Macedonia's Country Ceiling is 'BBB-'. EU accession aspirations, close integration with the EU in terms of trade, remittances and investment, and the long-standing exchange rate peg to the Euro provide strong incentives against the introduction of capital controls.

## Full Rating History

| | Foreign-Currency Rating | | | Local-Currency Rating | | | |
|---|---|---|---|---|---|---|---|
| Date | Long-Term | Short-Term | Outlook/Watch | Long-Term | Short-Term | Outlook/Watch | Country ceiling |
| 15 May 2020 | BB+ | B | Negative | BB+ | B | Negative | BBB- |
| 14 Jun 2019 | BB+ | B | Stable | BB+ | B | Stable | BBB- |
| 02 Feb 2018 | BB | B | Positive | BB | B | Positive | BB+ |
| 19 Aug 2016 | BB | B | Negative | BB | B | Negative | BB+ |
| 22 Jul 2016 | BB+ | B | Negative | BB+ | B | Negative | BBB- |
| 21 Aug 2015 | BB+ | B | Negative | BB+ | - | Negative | BBB- |
| 27 Oct 2010 | BB+ | B | Stable | BB+ | - | Stable | BBB- |
| 21 May 2009 | BB+ | B | Negative | BB+ | - | Negative | BBB- |
| 04 Nov 2008 | BB+ | B | Stable | BB+ | - | Stable | BBB- |
| 14 Aug 2007 | BB+ | B | Positive | BB+ | - | Positive | BBB- |
| 17 Aug 2006 | BB+ | B | Stable | BB+ | - | Stable | BBB- |
| 13 Jun 2006 | BB+ | B | Stable | BB+ | - | Stable | BB+ |
| 01 Nov 2005 | BB | B | Positive | BB | - | Positive | BB |

Source: Fitch Ratings

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## Appendix 1: Environmental, Social and Governance (ESG)

### Credit Relevance Scores

| General Issues | Key Sovereign Issues | SRM | QO | Score[a] |
|---|---|---|---|---|
| **Environmental (E)** | | | | |
| GHG Emissions and Air Quality | Emissions and air pollution as a constraint on GDP growth | 2 | 2 | 2 |
| Energy Management | Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP | 3 | 2 | 3 |
| Water Resources and Management | Water resource availability and management as a constraint on GDP growth | 2 | 2 | 2 |
| Biodiversity and Natural Resource Management | Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP | 3 | 2 | 3 |
| Natural Disasters and Climate Change | Impact of adverse climate trends, and likelihood of and resilience to shocks | 3 | 2 | 3 |
| **Social (S)** | | | | |
| Human Rights and Political Freedoms | Social stability, voice and accountability, regime legitimacy | 4 | 2 | 4 + |
| Human Development, Health and Education | Impact of human development, health and education on GDP per capita and GDP growth | 3 | 2 | 3 |
| Employment and Income Equality | Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability | 3 | 2 | 3 |
| Public Safety and Security | Impact of public safety and security on business environment and/or economic performance | 3 | 2 | 3 |
| Demographic Trends | Population decline or ageing, rapidly rising youth population; pensions sustainability | 3 | 2 | 3 |
| **Governance (G)** | | | | |
| Political Stability and Rights | Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis | 5 | 2 | 5 + |
| Rule of Law, Institutional & Regulatory Quality, Control of Corruption | Government effectiveness, control of corruption, rule of law, regulatory quality | 5 | 2 | 5 + |
| International Relations and Trade | Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions | 3 | 2 | 3 |
| Creditor Rights | Willingness to service and repay debt | 4 | 2 | 4 + |
| Data Quality and Transparency | Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities | 3 | 2 | 3 |

Source: Fitch Ratings

### About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

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### Credit-Relevant ESG Derivation

North Macedonia has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As North Macedonia has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

North Macedonia has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As North Macedonia has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

North Macedonia has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As North Macedonia has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

North Macedonia has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for North Macedonia, as for all sovereigns. As North Macedonia has a record of more than 20 years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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## Appendix 2: Data Notes and Conventions

### Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

### Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

### Notes for North Macedonia, Republic of

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

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