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)).

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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 SE (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)

€500,000,000 6.960% Notes due 2027

ISSUE PRICE: 99.023%

The issue price of the €500,000,000 6.960% Notes due 2027 (the "**Notes**") of the Republic of North Macedonia (the "**Republic of North Macedonia**", the "**Republic**", "**North Macedonia**" or the "**Issuer**") is 99.023% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 13 March 2027 (the "**Maturity Date**"). The Notes will bear interest from, and including, 13 March 2023 at the rate of 6.960% per annum payable annually in arrear on 13 March in each year, commencing on 13 March 2024.

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*" in the Conditions (as defined herein).

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 of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (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 2001 (2020 Revised Edition) 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 UK Limited ("**S&P**"). Each of Fitch and S&P is established in the UK and registered under Regulation (EC) No 1060/2009 on credit rating agencies (as amended, the "**CRA Regulation**") as it forms part of domestic law of the United Kingdom by virtue of the EUWA (the "**UK CRA Regulation**"). 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 13 March 2023 (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 9 March 2023

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.

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, "**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 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 of the United Kingdom by virtue of the EUWA ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the UK manufacturers' target market assessment; however, a 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 January 2023 was MKD 57,65 = USD 1.00 and the official rate published by the NBRNM for Euro on 1 January 2023 was MKD 61,49 = €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 2022 data and all 2023 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 2021 is "final", data for 2022 is "preliminary" and data for 2023 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, the global energy 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; (vi) expectations about the impact of the Russian invasion of Ukraine on the global supply chain and the economy; and (iv) 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*", "*Economy of North Macedonia*", "*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 J.P. Morgan SE
Issue Price	99.023% of the principal amount of the Notes.
Notes Offered	€500,000,000 6.960% Notes due 2027
Issue Date	13 March 2023
Maturity Date	13 March 2027
Interest on the Notes	6.960 per cent per annum
Interest Payment Dates	Interest on the Notes will be payable annually in arrear on 13 March of each year. The first payment of interest in respect of the Notes will be made on 13 March 2024 (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 7.250% 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	An amount equal to the net proceeds of the issue of the Notes will be used by the Issuer for budget support in 2023 and to refinance 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. Each of Fitch and S&P is established in the UK and registered under the UK CRA Regulation. 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	Citibank, N.A., London Branch
Registrar and Transfer Agent	Citibank Europe PLC
ISINs	XS2582522681 Regulation S Global Note XS2582524034 Rule 144A Global Note
Common Codes	258252268 Regulation S Global Note 258252403 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 economy of North Macedonia 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 economy of North Macedonia 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 economy of North Macedonia 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 industrial production in North Macedonia and broader sector diversification. The rate of future economic growth is, in turn, dependent on effecting such changes in the structure of the economy of North Macedonia and maintaining the appeal of the Republic to foreign investors and institutions as an appropriate investment opportunity. In 2021, FDI inflow amounted to EUR 470.5 million, or 4.0% of GDP, as compared to 1.9% of GDP for the same period in 2020. FDI inflow from January to September 2022 amounted to EUR 528.3 million, or 3.8% of the projected GDP for 2022, as compared to 2.5% of annual GDP for the same period in 2021. The economy of North Macedonia 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, Russian/Ukrainian conflict and the accompanying impact of such events on economic conditions in its major trading partners and sources of inbound FDI. For example, remittances to the Republic from expatriate workers and exports (46.7% of exports were to Germany in 2021) with a high concentration in the automotive industry, declined in 2020 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 affected the supply and production processes and 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.

The economy remains vulnerable to deterioration in global economic conditions. 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 2021, 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 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, 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. In July 2020, based on the request by the Republic for financing, the European Commission ("**EC**") issued a €160 million loan 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 in the amount of €78 million was disbursed in June 2021. Accordingly, economic conditions in the Republic may be materially and adversely affected by any deterioration in regional or global economic conditions.

The economic impact of Russia's invasion of Ukraine on the Republic has been negative, especially in the energy sector, due to the increase in the prices of natural gas and electricity. Additionally, the war has caused a drop in the economic growth of EU member states, who are the dominant trade partners of the Republic. This has had a negative effect on the trade volume of the Republic. In the near future, the war may cause a further decrease in the demand for the Republic's products and services in EU countries as well as other countries. This would further negatively affect the Republic's economic growth. Any continuation of the war in Ukraine could exacerbate these negative effects on the economy of North Macedonia, or present additional knock-on impacts due to increased oil, gas, and other commodity prices.

Additionally, any deterioration in financing conditions as a result of market, economic or political factors outside its control could make it difficult for the Republic to refinance its indebtedness on favourable terms. This includes ongoing effects as a result of rising inflation rates and interest rates, which have impacted the global economy and the economy of North Macedonia due to supply chain issues, rising energy pricing, and the Russia/Ukraine invasion.

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 economy of North Macedonia and political and legal systems since the dissolution of the former Yugoslavia and its independence in 1991, the economy of North Macedonia 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 result, 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 continuing economic challenges from the COVID-19 pandemic) of North Macedonia could adversely affect the economy of North Macedonia and the ability of the Republic 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, following a referendum in June 2016, the UK left the EU ("**Brexit**") on 31 January 2020 and the transition period ended on 31 December 2020. On 24 December 2020, the UK and the EU reached an agreement in principle to a trade and cooperation agreement (the "**Trade and Cooperation Agreement**"), to govern the future relations between the UK and EU following the end of the transition period. The Trade and Cooperation Agreement was signed on 30 December 2020. The EU Council announced that it adopted a decision on the conclusion of the Trade and Cooperation Agreement on 29 April 2021, being the last step in the EU's formal ratification process. The Trade and Cooperation Agreement came into force on 1 May 2021. The Trade and Cooperation Agreement contains limited provisions in relation to financial services and does not create a detailed framework to govern the cross-border provision of regulated financial services from the UK into the EU and from the EU into the UK. It is therefore currently unclear as to how this and certain other aspects of the UK-EU relationship will be dealt with.

On 3 December 2020, the Partnership, Trade and Cooperation Agreement between the UK and the Republic (the "**Partnership Agreement**") was signed and has been in effect since 1 January 2021. The Partnership Agreement, 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. As such, no assurance can be given that such matters would not adversely affect North Macedonia in a variety of ways. Between 2015 and 2019, trade with the UK amounted to an average of 6.6% 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 economy of North Macedonia and the ability of the Republic 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. For example, the 2023 budget, from a fiscal perspective, aims to deal with the consequences of the energy crisis and rising inflation, continue fiscal consolidation and sustainability, continue economic recovery and sustainable economic growth, and allow for the basic functioning of the state and support the various Euro-Atlantic integrations.

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. For example, on 20 October 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. More recently, after the local elections in 2021 in which the SDSM lost the election and Zoran Zaev resigned. Dimitar Kovačevski, the new president of the SDSM, was elected as the new prime minister in January 2022, with 62 votes in favour and 46 against, forming a new parliamentary majority. 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 banking sector of North Macedonia (which is predominantly foreign owned), lower economic performance and, consequently, a supplemental budget for public expenditure. 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 outbreak of communicable diseases, including the COVID-19 pandemic, has caused and is likely to continue to cause significant disruption to both the global economy and the economy of North Macedonia

The outbreak of communicable diseases on a global scale, including the ongoing 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 in March 2020. As a result of the outbreak, many governments, including the Government of North Macedonia (the "**Government**"), implemented various 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.

The Republic began its COVID-19 vaccination programme on 17 February 2021. As at the date of this Offering Circular, 46.7% of the population (amounting approximately 860,000 people) have received two-doses of the vaccine and 8.9% of the population to have received a third (or 'booster') vaccination.

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 4.7% during 2020. In the year ended 2021, the Central Government Budget deficit amounted to MKD 38.8 billion, or 5.4% of GDP. In the year ended 2020, the budget deficit was 8.0% of GDP. The decrease in the budget deficit during 2021 was due to the more favourable epidemiological situation, along with a vaccination rollout, government measures to support the economy, and a more favourable international environment and less restraint of consumption. In December 2021, the Government approved the annual budget for 2022, reflecting further measures intended to achieve strategic priorities, accelerate economic growth, support the Republic's integration processes in the EU and to meet NATO membership obligations. During 2022, a Supplementary Budget was also adopted and MKD 14.7 billion was secured for use during general crisis situations (including the energy crisis and the ongoing COVID-19 pandemic). The Government estimates the budget deficit will decrease to 4.6% of GDP in 2023 as the economy begins to recover from the effects of the COVID-19 pandemic in response to the measures taken by the Government. There can be no assurance that actual Government expenditures or decreases in revenues for 2022 will not ultimately be higher than budgeted, as the scope and severity of the effect of the COVID-19 pandemic on the economy of the Republic cannot be accurately predicted at this time. See "*—The economy of North Macedonia 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*" below.

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 economy of North Macedonia or 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 economy of North Macedonia 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. Given recent inflationary pressures globally and domestically (including a peak in domestic inflation of 19.8% in October 2022), the NBRNM is closely monitoring price developments and their driving factors and intends to adjust the monetary policy stance as needed. Recent ECB actions have had minimal impact, given the Republic's low share of short-term interest rate sensitive capital inflows. 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 Republic and its ability to repay principal and make payments of interest on the Notes.

The economy of North Macedonia is highly dependent on its major trading partners

The economy of North Macedonia 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, industry in North Macedonia remains heavily reliant on manufacturing, which, as of November 2022, accounted for 81.6% of industrial production in the aggregate, followed by electricity, gas, steam and air conditioning supply (8.4%) and mining and quarrying (10.0%). The largest components of manufacturing as of November 2022 are: food and beverage (14.5%), textiles and clothing (12.5%), manufacture of motor vehicles, trailers and semi-trailers (8.0%) and machinery and equipment (6.8%). 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 78.3% of total exports for the first eleven months of 2022. Within the EU, Germany accounted for 44.9% of total exports during for the first eleven months of 2022, reflecting the increase of recent years in light of the greater importance of the automotive industry in total exports, followed by Bulgaria, Serbia and Kosovo, which accounted for 5.0%, 4.6% and 4.5% 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. 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 economy of North Macedonia is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on economic growth in North Macedonia and the ability of the Republic to service its public debt*" above. Any or all of these developments may materially and adversely affect economic conditions in North Macedonia and, accordingly, the ability of the Republic 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 economy of North Macedonia

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 economy of North Macedonia.

In response to the Russian-Ukrainian conflict, the Republic has introduced sanctions against the Russian Federation, in line with the actions of other EU countries, and the Republic expects to continue to align with the policies enacted by the EU, the United States and other countries. The dramatic rise in energy prices has already negatively impacted the Republic's economy, causing the Government to intervene in order to prevent further increases. Continued and future sanctions on the Russian Federation or its related institutions, or any restriction on the ability to access certain pipelines or imports originating within the Russian Federation, may restrict the supply of oil or natural gas, which could lead to oil and natural gas price increases. Additionally, given the Republic's dependence on Russia for oil and gas, a failure to provide the necessary quantities of natural gas to the city of Skopje during the winter season could lead to increased electricity production needs and further instability in the domestic energy system.

Certain measures have been implemented to mitigate the impact of the energy crisis on GDP (which decreased by 4.7% in 2020, increased by 3.9% in 2021 and registered growth of 2.7% in the first nine months of 2022). One measure, which is aimed at preventing increases in household electricity prices, includes a VAT reduction on electricity and reduced prices offered by the Power Plants of North Macedonia, which are lower than production costs.

In response to the electricity and energy crisis, the Government adopted "decision confirming crisis situation in electricity supply on the entire territory of the country" ("Official Gazette of the Republic of North Macedonia" No. 252/21). As a result, a number of measures aimed at mitigating of the effects of the crisis, such as providing additional financial support for the socially endangered categories of the population (households and beneficiaries of social pension), were undertaken.

As of 28 February 2023 there have not been any major shutdowns of important production or energy companies due to the energy crisis. However, 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 economy of North Macedonia and/or other EU economies and, accordingly, the Republic's ability to repay principal and make payments of interest on the Notes.

The high level of foreign ownership of the banking system in North Macedonia may adversely affect the stability of the financial system of North Macedonia

The high level of foreign ownership in the banking system of North Macedonia makes it vulnerable to disruption as a result of internal or external factors. As at 30 September 2022, foreign-controlled banks accounted for 71.5% of total assets, 81.5% of total loans and 68.9% of total deposits in the banking system of North Macedonia. Two of the three largest banks in North Macedonia, collectively accounting for 34.2% of total assets of the banking system of North Macedonia as at 30 September 2022, were subsidiaries of a Greek and a Slovenian bank. 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.

Nevertheless, the aforementioned vulnerabilities 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 economy of North Macedonia and have an adverse effect on the ability of the Republic 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 applied to become a member of the EU in 2004 and is in the process of accession to gain 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. On 25 March 2020, the Council of the EU unanimously decided to open accession negotiations with the Republic for full membership into the EU.

The EC presented the draft negotiation framework (the "**NF**") 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 prevented the adoption of 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, linguistic matters and the protection of minority rights matters. Due to the change in government in Bulgaria during 2021, new dynamics in the dialogue between Bulgaria and the Republic ensued and five joint working groups were created to cover all major areas of potential cooperation. On 17 July 2022 North Macedonia and Bulgaria signed the protocol of the second meeting of the joint inter-governmental meeting which paved the way for adoption of the Council of the EU Conclusions and NF on 18 July 2022. In order to complete the negotiations process, North Macedonia has committed to implementing several constitutional changes, consisting of, among other changes, the inclusion of citizens from other ethnic backgrounds (such as Bulgarians) in the Constitution, which is in line with existing internal procedures. However, it is unclear when or if the amendment will be ratified.

Subsequently, the first inter-governmental conference between the North Macedonia and EU was held on 19 July 2022, thus formally opening the accession negotiations and the screening process as a part thereof. Based on the calendar agreed with the EC, the screening process started on 15 September 2022 and should be completed by November 2023. It includes explanatory meetings for the update of the EU acquis and bilateral meetings where the country presents the level of alignment of the national legislation. The bilateral screening on Fundamentals Cluster was successfully completed on 7 December 2022, while the explanatory and bilateral screenings on Internal Market Cluster began on 23 January 2023 and is to be finalised by 14 March 2023. The screening process for all clusters is expected to be completed by the end of November 2023. North Macedonia has set 2030 as a target date to be prepared to join the EU.

Despite continuing efforts of North Macedonia to fulfil the political and economic criteria for membership in the EU, most notably through the implementation of its Agenda "Europe at Home" launched in 2021, 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 economy of North Macedonia, 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 2021 Transparency International Corruption Perceptions Index, North Macedonia ranked 85th out of 180 countries and territories under review, compared to a ranking of 87th out of 180 in 2021. 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. On 21 July 2021, the Appellate Court Skopje rejected the appeal and confirmed the first instance judgment. 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 fled North Macedonia and was granted asylum in Hungary. A warrant for his arrest was issued on 13 November 2018. In April 2022, the former Secretary General Muhamed Zekiri was arrested on charges of abuse of his official position under the Law on Public Prosecution. Mr. Zekiri has since resigned from his position as Government Secretary General and the investigation remains ongoing.

In the ordinary course of government operations, there may be investigations into former Government officials, which may occur in the future. 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 economy of North Macedonia 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 the Republic 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. According to the Work Program of the Government (2017-2020) and Plan 3-6-9, the Strategy for Reforms of the Justice Sector (2017-2022) was adopted in accordance with recommendations by a group of senior experts on systemic issues of the rule of law in connection with the monitoring of communications, the guidelines of the European Commission, the Venice Commission and GRECO. Urgent legal changes were made in some of the laws covering the judicial sphere. During 2019 and 2020, the largest reforms were implemented through the a package of laws relating to the justice system and its alignment with international standards.

However, the legal system of the Republic still 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 Republic 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 28 October 2022, Fitch affirmed 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings of North Macedonia (with a negative outlook). On 27 January 2023, S&P affirmed the 'BB-/B' long- and short-term foreign and local currency sovereign credit ratings of North Macedonia (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 €500,000,000 6.960 per cent. Notes due 13 March 2027 (the "**Maturity Date**") (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 13 March 2023 (the "**Fiscal and Paying Agency Agreement"**) will be 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 Citibank Europe PLC 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 9 March 2023 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 13 March 2023 (the "**Issue Date**") at the rate of 6.960 per cent. per annum. Interest is payable annually in arrear in the amount of €69.60 per Calculation

Amount (as defined below) on 13 March in each year commencing on 13 March 2024 (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 13 March 2027, 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 13 December 2026 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 purchased, while held by or on behalf of the Issuer or any Agency, shall not entitle the holder to vote at any meeting of holders of Notes and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of holders of Notes. 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.

*Prospective investors should note that further notes that are treated as a single series with the Notes for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, among other things, the further notes may, for U.S. federal income tax purposes, be considered to have been issued with "original issue discount" ("**OID**") required to be included in income by U.S. investors prior to receipt of cash attributable to such income even if the Notes had no OID, or the further notes may have a greater amount of OID than the Notes. These differences 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. 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. Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

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

An amount equal to the net proceeds of the issue of the Notes will be used by the Issuer for budget support in 2023 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.

The total resident population of North Macedonia in September 2021 was approximately 1,836,713 people of whom approximately 526,502 lived in Skopje, the political, administrative and commercial centre of North Macedonia. After Skopje, the largest cities are Kumanovo, Bitola, Tetovo and Prilep with populations ranging from 69,000 to over 98,000 people. Ethnic Macedonians comprise approximately 58.44% of the population, with ethnic Albanians comprising 24.30%, and the balance consisting of Turks (3.86%), Romas (2.53%), Serbs (1.30%), Bosnians (0.87%), Vlachs (0.47%) and other ethnic groups.

History

In 2022, the Republic celebrated the 31st anniversary since its declaration of independence. Today, the Republic is a democratic country, a member of NATO, and aspires to begin negotiations with the European Union to gain full membership into the EU. The country's development is currently aligned with European values, and respects the spirit of Euro-Atlantic policies, goals and perspectives, aimed at creating one, equal society for all citizens. The current President of the Republic is Stevo Pendarovski and the current Prime Minister is Dimitar Kovačevski.

As historical background, 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*".

The declaration for independence came at a time when other republics within what was then known as the "Socialist Federal Republic of Yugoslavia" were also declaring independence. Although, 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 in the region near the Kosovo border, and the hostilities spread to northern and western parts of Macedonia.

Since the Republic's declaration of independence, the state has successfully overcome several key challenges, including peacefully gaining independence; establishing democratic institutions; promoting ethnic communities despite internal conflict in the country; obtaining candidate status for EU membership, enabling it to begin the preliminary processes ahead of negotiations to enter the EU, which has consequently created tangible economic development opportunities, due to increased foreign investor interest in the Republic; restoring democracy and strengthening of the strategic Euro-Atlantic strategies despite political strife in the country; and promoting good relations with neighbouring countries by implementing policies of dialogue, understanding and respect, which have enabled the Republic's membership in NATO. During its over 30 years of independence, the country has faced internal conflict, including in 2001 when a broad government was formed, from all political parties in the country. This is today a resolved issue with the Prespa Agreement, signed on 17 June 2018 between the two parties, by adding the adjective North to the then constitutional name Republic of Macedonia, so that today, the constitutional name of the country is the Republic of North Macedonia. The country, from 2017 onwards, has focused on a democratically determined government, which works on the principles of finding solutions to any open issues, both domestically and internationally, thus recognising the Republic as a positive example of stability and development in the Western Balkans region and is a country - a respected partner in NATO and the member states of the European Union.

Historical Major Events

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.

In April 2001, Macedonia signed the Stabilisation and Association Agreement (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. In April 2003, Macedonia became a member of the World Trade Organisation.

Between 2015 and 2016, North Macedonia faced a period of political turmoil and civil unrest with the government, which created a political 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, with an aim to consolidate the Republic's democratic and economic developments. 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, the Ministry of Forestry and Water Economy 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.

At the beginning of January 2016, as part of the June 2015 agreement, the then Prime Minister Nikola Gruevski resigned and was appointed Prime Minister of the transitional government to conduct parliamentary elections, 100 days before the elections scheduled for April 2016. The Prime Minister was from the ranks of the then ruling party, VMRO-DPMNE. The Assembly was dissolved in April 2016, and the elections were held on 11 December 2016. The VMRO-DPMNE and the coalition won 51 seats, out of 120 seats in Parliament, but failed to form a government. SDSM and the coalition won 49 seats in Parliament and together with DUI formed a parliamentary majority. On 27 April 2017, a violent incident occurred in the Parliament when a group of several hundred people stormed the Parliament, in order to prevent the election of a new President of the Parliament, during which MPs from SDSM, DUI and the Alliance for Albanians, as well as various bystanders from the media, were physically attacked. Criminal charges were filed against the then leader of VMRO-DPMNE, Nikola Gruevski and other VMRO-DPMNE officials.

Following this incident, Talat Xhaferi was elected Speaker of Parliament. Talat Xhaferi's election was recognised by the United States and the European Union, as was the newly elected government. On 31 May 2017, six months after the elections, the Assembly voted for a new coalition government led by SDSM and two other coalition partners: DUI and DR-DPA (the coalition of smaller parties, led by the mayor of Struga). The new government came to power on 1 June 2017. Zoran Zaev, the president of SDSM, was elected Prime Minister. Since then, a complete renewal of the democratic and Euro-Atlantic processes in the country has begun, with an emphasis on freedom of expression and choice, a focus on establishing a legal and just state and an equal society of citizens with equal rights and responsibilities.

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 became the 30th member of NATO. See "*—International Relations—NATO Accession*".

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 Assembly elections on 15 July 2020. The SDSM won the July 2020 elections with 46 members of the Assembly ("**MPs**"), while VMRO-DPMNE had 44 MP's. Following this election cycle, along with coalition partners DUI and DPA, Mr. Zaev then continued as Prime Minister into his second term. See "*—Overview of the Current Political Situation – Assembly Elections 2020*".

In March 2020, the European Council endorsed the decision to open EU accession negotiations with the Republic, noting that North Macedonia has demonstrated its determination to advance the EU reform agenda and had delivered tangible and sustained results, fulfiling 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 freedom of expression 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 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, 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 be elected for a term of five years and can only be elected for two terms in total.

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. It is a representative body with legislative powers, which include the power to amend the Constitution, pass laws and resolutions, impose public taxes and fees, adopt the Republic's budget and ratify 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.

The Assembly establishes a Council for Inter-Ethnic Relations. The Council consists of the President of the Assembly and two members each from the ranks of the Macedonians, Albanians, Turks, Vlachs and Romanies, as well as two members from the ranks of other nationalities in Macedonia. The President of the Assembly is President of the Council. The Assembly elects the members of the Council. The Council considers issues of inter-ethnic relations in the Republic and makes appraisals and proposals for their solution. The Assembly is obliged to take into consideration the appraisals and proposals of the Council and to make decisions regarding them.

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 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.

Government

The executive power is vested in the 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, Dimitar Kovačevski, was confirmed by the Assembly on 16 January 2022. 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.

The Government determines the policy of carrying out the laws and other regulations of the Assembly and is responsible for their execution; proposes laws, the Budget and other regulations adopted by the Assembly, as well as a spatial plan of the Republic; proposes decisions concerning the reserves of the Republic and sees to their execution; adopts bylaws and other acts for the execution of laws; lays down principles on the internal organisation and work of the ministries and other administrative bodies, directing and supervising their work; provides appraisals of drafts of laws and other acts submitted to the Assembly by other authorised bodies; decides on the recognition of states and governments; establishes diplomatic and consular relations with other states; makes decisions on opening diplomatic and consular offices abroad; proposes the appointment of ambassadors and representatives of the Republic abroad and appoints chiefs of consular offices; proposes the Public Prosecutor; and appoints and dismisses holders of public and other office determined by the Constitution and laws and performs other duties determined by the Constitution and law.

Recent Developments

Parliamentary Majority Changes

In order to strengthen and increase the parliamentary majority and ensure faster implementation of the activities related to the economic growth and EU prospects of the country, during February 2023 a reshuffling of the Government cabinet was completed. During this process, negotiations were initiated with all political parties. The negotiations have been completed, which resulted in the political party "Alternativa" leaving the Government while a larger political party, "Alliance of Albanians", joined the Government coalition.

Following the completion of these negotiations, on 13 February 2023 the Prime Minister submitted proposals for the dismissal of certain existing members of the Government, including ministers and deputy ministers, along with proposals for the appointment of new members of the Government. The Minister of Justice, Minister of Environment and Spatial Planning, Minister of Health and the Minister of Information Society and Administration were the miniterial positions dismissed. Additionally, changes were made in the management positions of the Deputy Minister of Defence, Deputy Minister of Justice, Deputy Minister of Agriculture, Forestry and Water Management, Deputy Minister of Education and Science and Deputy Minister of Health. The procedure for dismissing the ministers and deputy ministers and appointing was completed on 27 February 2023, and the Government composition is complete.

This process aims to allow for greater stability in and support of the reforms being conducted to achieve membership in the EU, as well as aid in the strategic partnership with the United States, and the realisation of the 2020-2024 Government Programme. The ultimate goal is to improve the standard of living of citizens, strengthen the economy, commit to the fight against crime and corruption and ensure human rights.

The Russia/Ukraine Conflict

The Government has fully aligned itself with the policies of NATO and the European Union regarding the Russian aggression in Ukraine, as well as regarding the sanctions against the Russian Federation. The Republic has publicly announced that it has provided the necessary assistance requested by Ukraine. At the same time, the Republic has accepted refugees from Ukraine and prepared accommodation facilities for them. An agreement between the European Union and the Republic regarding operational activities carried out by the European Border and Coast Guard Agency ("**EBCGA**") in North Macedonia was signed on 26 October 2022. Once the agreement enters into force, members of the European Border and Coast Guard Standing Corps can be deployed to North Macedonia and joint operations organized by Frontex EBCGA can be carried out on the territory of the Republic, subject to an operational plan being agreed between Frontex EBCGA and the national authorities. Frontex and national border authorities will be jointly developing the operational plan.

On 24 February 2022 the Government instructed the Ministry of Foreign Affairs, through the EU Permanent Mission in Brussels, to announce that North Macedonia was joining the package of restrictive measures of the Council of Europe, together with all previous decisions for restrictive measures from 2014, in view of the situation in Ukraine and to initiate the procedure for their implementation. These targeted EU restrictive measures included: targeted measures for certain politicians and businessmen and the introduction of a ban on their travel through EU countries; a ban on access to EU financial funds; and restrictions on the operation of certain banks of the Russian Federation with the financial institutions of the EU and its member states. The Government at its session on 27 February 2022 decided to join the additional recommendations of certain EU member states to ban entry for airlines from the Russian Federation into their airspace. North Macedonia has also closed off its airspace to Russia.

The Government is working to overcome the challenges of the war in Ukraine, which occurred while COVID-19 is ongoing.

The Government recommended that the Agency for Audio and Audio-visual Media Services instruct cable operators in the Republic to exclude television channels founded by the Russian Federation or private individuals, legal or natural persons of origin from the Russian Federation. The recommendation was made after the decision of the European Union member states to ban the broadcasting of "Russia Today" and "Sputnik" in the territory of the EU.

Regarding energy challenges, the Government has been considering and approaching alternative sources for gas provision, given that all gas in North Macedonia is imported from Russia. However, North Macedonia is planning to reduce its dependence on Russian gas. One example of this is the construction of a gas interconnector with Greece. The project consists of a 124 km gas pipeline, with 68 km in North Macedonia and 56 km in Greece. Commissioning of this project is expected to be the end of 2025.

Additionally, in October 2022 the gas transmission system operators of Bulgaria and North Macedonia signed an agreement to increase the capacity of the existing natural gas link between the two countries by 182 million cubic metres per year in the direction of North Macedonia. The agreement between Bulgaria and North Macedonia will grant North Macedonia access to auctions on the Balkan Gas Hub, natural gas deliveries from Azerbaijan (which Bulgaria receives through its interconnection with Greece), and liquefied natural gas volumes from other potential suppliers through the existing Greek terminal at Revithoussa and the planned terminal at Alexandroupolis. Bulgaria will also make capacity at its Chiren gas storage facility available to North Macedonia under the agreement.

Necessary steps are also being taken to address food security challenges. As part of the cooperation through the Open Balkans initiative, it was agreed with the Republic of Serbia that the ban on wheat exports adopted by the country would not apply to North Macedonia. The export of approximately 50,000 tons of grain has been agreed with Serbia. Thus far there have been no bans or terminations of contracts, but the Government has engaged in finding alternative markets for domestic agricultural products. The focus of agrarian policies has been to maximise the amount of agricultural land that is arable, to increase yields in the medium-term and to reduce imports in the long run, in order for the state to be as import-independent as possible. In addition, the Government adopted a programme for implementation of an intervention fund in agriculture. The budget funds for this programme are MKD 250 million and are provided in the budget of the Agency for Financial Support in Agriculture. These funds are intended for use in intervention measures for financial support in agriculture to mitigate the consequences caused by rising production costs for agricultural production, crops in agricultural production and livestock support.

Regarding the protection of the living standard of citizens and ensuring the liquidity of companies, In March 2022, the Government adopted 26 measures. These measures for the protection of the living standard of citizens include: reduction of the preferential VAT rate for basic human food products from 5% to 0%, from April to June; freezing trade margins of basic human nutrition products; subsidies for the most vulnerable categories for basic food products (MKD 1,000 for 3 months for 35,000 users); autonomous measure for import of basic food products and raw materials that have customs duties from all countries, (*i.e.*, abolition of customs rates for these products and increase of quotas); and continuation of the application of a preferential tax rate of 5% for the supply of electricity to households until the end of the year instead of 1 July 2022, amongst others. Additionally, to protect vulnerable groups of citizens from price increases in energy, the Government announced the grant of financial support to low-income people in 2022, whose regular monthly income in the household does not exceed the net income of MKD 30,000.

Measures for support of companies include: subsidising the contractual interest rate on loans granted by commercial banks to business entities that will reinvest their profit from 2021; financial support through direct lending from the Development Bank of North Macedonia to the companies; lending through commercial banks with interest-free working capital loans; using the Guarantee Fund of the Development Bank; and loans for investment in energy efficiency and renewable energy projects, amongst others.

The Energy Crisis

Pursuant to Article 14 of the Energy Law ("Official Gazette of the Republic of Macedonia" No. 96/18 and "Official Gazette of the Republic of North Macedonia" No. 96/19), the Government adopted a decree on the criteria and conditions for declaring a state of crisis in cases of weather and natural disasters, accidents and disturbances in electricity markets, the manner of electricity supply in crisis situation, the measures taken in case of crisis, and the rights and obligations of the licence holders for performing electricity activities.

The Ministry of Economy established a Commission for monitoring the situation in the electricity supply which constantly monitors the situation with the electricity supply in the country and the Commission gave proposal to the Minister of Economy for the existence of risks due to which it is necessary to declare a state of crisis.

On 9 November 2021 the Government adopted a decision on the existence of state of crisis in the electricity supply on the entire territory of the Republic for a period of 30 days ("Official Gazette of the Republic of North Macedonia" No. 252/21). On 9 December 2021, the Assembly extended the state of crisis in ("Official Gazette of Republic of North Macedonia" No. 273/21) until 9 June 2022. On 30 September 2022, the Assembly extended the state of crisis in the electricity supply until 30 April 2023 ("Official Gazette of the Republic of North Macedonia" No. 212/22).

In order to reduce the socio-economic impact of rising energy prices (in particular, on public service providers, small- and medium-sized enterprises and households), the Government has made specific decisions targeting these categories of vulnerable energy users:

- Providing householders and small consumers subsidies in the form of price caps for the universal energy supplier (resulting in a EUR 65/MWh subsidy);
- Providing direct financial support to vulnerable electricity consumers (approximately 4,200 citizens) through the Energy Poverty Program;
- Providing subsidies to schools and healthcare facilities for the price of electricity in the form of electricity supply agreements;
- Providing subsidies to public utilities (such as water suppliers and waste disposal stations) in the form of electricity supply agreements; and
- Providing subsidies to essential food-chain companies for the price of electricity (in the form of electricity supply agreements).

On 17 January 2022, the Government adopted a decision on the existence of state of crisis in the heat supply ("Official Gazette of the Republic of North Macedonia" No. 13/22) for a period of 30 days and was subsequently extended until the end of the heat season. The Government decided to provide additional quantities of heat due to the crisis in the supply of heat. The additional quantities of heat will be provided by domestic production of heat by concluding agreements between the Joint Stock Company for production of electricity power plants of North Macedonia in state ownership and the companies for production, distribution and supply of heating.

Local Elections and Election of New Prime Minister

On 16 January 2022, North Macedonia's parliament elected Dimitar Kovačevski as Prime Minister following two months of political turmoil, with 62 MPs in support and 42 MPs against.

On 17 October 2021, the first round of the 2021 local elections were held to elect councilors and mayors in 80 municipalities in the Republic and in the City of Skopje. In the first round, mayors were elected in 34 municipalities, and in 46 municipalities and the City of Skopje a second round was held. The second round of local elections was held on 31 October 2021, which completes the election of mayors for all 80 municipalities and the City of Skopje. In both rounds for mayor, VMRO-DPMNE won in 42 municipalities, SDSM in 16 municipalities, DUI in 10 municipalities, Alliance for Albanians, Alternative, GROM and DPA in one municipality, the coalition of LDP and DOM in one municipality, and independent candidates in two municipalities and the city of Skopje.

Deputy Prime Minister in charge of good governance policies

As of January 2022, a new Deputy Prime Minister in charge of good governance policies has been appointed. This cabinet will mainly be focused on activities as follows: creating a strategic approach and roadmap for the process of digital transformations, anti-corruption measures, coordination and collaboration with all relevant institutions such as State Audit Office, State commission for prevention of corruption, Inspection Council, civil society and international organisations in order to create good governance policies and systematic solutions.

Berlin Process

The Office of the Prime Minister has a central role in the Berlin Process, which is a diplomatic initiative aimed at increasing regional cooperation in the Western Balkans and is linked to the future enlargement of the European Union. North Macedonia endorsed the Common Regional Market ("**CRM**") 2021-2024 action plan at the Berlin Process Summit on 10 November 2020. The Government is fully committed to regional economic integration and its targeted actions include:

(f) extending the "Green Lanes" to neighbouring EU countries. These "Green Lanes" are established between the Western Balkans and the EU Member States and support trade and transport facilitation and ensure the flow of goods during pandemics and other crises. The initiative is supported by and was developed in with the European Commission with the intent of eliminating excessive waiting times at the border crossing points between the Western Balkans countries and the EU;

(g) aligning the national legislation with EU-compliant rules and standards and providing opportunities for companies and citizens;

(h) aligning investment policies with the EU standards, best international practices and promoting the region to foreign investors; and

(i) integrating the Western Balkans into the European digital market and transforming industrial sectors.

The CRM is a successful example of the Government's motivation to launch new regional initiatives aimed at bringing the Western Balkans closer to the EU Internal Market. The Government's goal is to increase the attractiveness of the region for foreign investors and to facilitate higher investment inflows through joint investment retention.

Open Balkan

In December 2021, Albania, Serbia and the Republic agreed to further their Open Balkan initiative to promote ties focusing on the labour market, electronic identification and the lifting on non-tariff barriers for businesses. Further the three countries signed an agreement on Interconnection of Electronic Identification Schemes for the citizens of the Western Balkans and an agreement on Conditions for Free Access to the Labour Market in the Western Balkans.

Strategy for Energy Development

The EDS defines the energy policy of the Republic. 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 was revised in light of the COVID-19 pandemic and the energy crisis, caused by the Russian invasion in Ukraine. In February 2020, the Government 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 markets of North Macedonia.

Intervention Plan on Investments

As part of the Government's Intervention Plan on Investment for the period of 2021-2027, the Government intends to invest €8.2 billion in key sectors, including energy, to support the implementation of projects of high interest. The projects intend to accelerate the development of the local economy.

Growth Acceleration Plan

On 26 October 2021, the Government adopted the Growth Acceleration Plan for the period of 2022-2026, with the aim to support the recovery of the economy and the growth of GDP following the COVID-19 pandemic. As well as seeking to increase GDP, the plan seeks to bring new investments in the public sector, create jobs and lead to fiscal consolidation and stable public debt.

The plan also offers access to capital to finance the recovery the economy and acceleration of economic growth. In addition to planned budgetary public investments in the amount of €4 billion for the period 2022-2026, IPA funds and funds from international financial institutions in the provide sector is expected.

The Government Programme 2020-2024 is focused on the "Green Agenda", digitisation, innovation and technology, human capital development, improvement of the physical infrastructure, social cohesion, and good governance.

The plan contains a detailed overview of the available sources of funding, which are a combination of traditional and new funding instruments. Proposed instruments through which the financing of the projects in the plan will be provided include: a mechanism for greater efficiency of the capital expenditures, project bonds, green bonds, public-private partnerships, public asset management, a guarantee scheme, the Energy Efficiency Fund, the Local and Regional Development Fund, the Fund for Development, the Small and Medium Enterprise Support Hybrid Fund, the Strategic Green Investment Hybrid Fund, the Fund for Funds and the Risk Capital Funds.

COVID-19 and EU Assistance

In response to the COVID-19 pandemic, the EC granted North Macedonia access to the Joint Procurement Agreement, the Civil Protection Mechanism, European Solidarity Fund and the 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 €66 million in COVID-19 response support for the Republic. The EU has allocated North Macedonia €4 million from the EU Integration Facility ("**EUIF**") to procure medical equipment and PPE from the United Nations Office for Special Projects. €40 million has been allocated for Resilience package under IPA 2020 Programme. €10 million has been allocated from the EUIF 2020 funds. €3 million pre-financing has been disbursed through the Sector Budget Support for EU for Youth and one contract for economic growth has been contracted with GIZ to support the recovery of the private sector after the outbreak of COVID-19. All these funds have been disbursed. In addition, in July 2020, the EC adopted a proposal to extend €160 million in Macro-Financial Assistance to North Macedonia, which was disbursed in two instalments during 2020 and 2021. In addition to these funds, the country received an €8.2 million package for the vaccine that included €7.6 million for the purchase of the actual vaccine (which has been received by the Ministry of Health) and €0.6 million for vaccine related equipment whose tender has been completed and the vaccine related equipment has now been procured, distributed and put in use.

The ECB 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 until March 2022, and was subsequently extended further, until January 2023. At the time of this Offering Circular, the NBRNM has not used any funds from the approved repo line.

The Judicial System

In the Republic, the judicial system is composed of 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 based on the Constitution, laws and ratified international agreements and treaties. In addition, after exhausting legal remedies in the Republic, the dissatisfied party can initiate proceedings before the European Court of Human Rights. The Republic's courts are required by law to co-operate with and enforce decisions of the European Court of Human Rights.

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. The Constitutional Court does not belong to a regular judiciary and differs from ordinary courts in its organisational structure and way of functioning.

Pursuant to the Law on Courts (the "**Law on Courts**"), each of the 27 Basic Courts are established for one or more municipalities with areas determined by this law. Basic Courts, in accordance with their actual jurisdiction, shall judge in the first instance and they are established as courts with basic jurisdiction and courts with extended jurisdiction. Within the basic courts with extended jurisdiction, mandatory specialised court departments are established that will act only on certain types of disputes, according to the law. 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, 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. 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.

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. 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 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, 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 Strategic Framework for Judicial Sector Reform was established in November 2017, when the Government adopted the Judicial Sector Reform Strategy 2017 - 2022 with its action plan which outlines all the priorities that the country should deliver within the framework of Chapter 23. This strategic document was prepared based on an assessment of the efficiency of the judicial system, while the goal was to improve the judicial system in the country based on the principles of independence, impartiality, responsibility, efficiency, and quality.

The action plan is structured in four chapters, namely Strategic Objectives for Judicial Reform, Strategic Planning and Policy Making, Judicial Institutions and Reforms in Special Areas. Within these four chapters, a total of 129 measures are envisaged which will be implemented through the realisation of 227 activities. According to the latest progress report on the implementation of activities under the 2021 action plan: 118 activities are fully implemented, 30 activities are ongoing, 34 activities are delayed, 40 activities are being implemented continuously, 3 activities depend on adoption of the legal changes, and 2 activities have been deemed unenforceable due to changes in approach.

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 2022. In the EU Commission's Report on North Macedonia in 2021, they noted that the Republic has some level of preparation and is moderately prepared to apply the EU acquis and European standards in this area. In line with the judicial system strategy, the Ministry of Justice prepared new laws on topics such as Law on expertise and a set of laws relating to the salaries of judges, public prosecutors, members of the Judicial Council and the Council of Public Prosecutors. These laws are in parliamentary procedure, during which the Ministries draft the laws, submit the laws to the Government, the Government adopts the law in their session and the law is then proposed to the Parliament for adoption. In November 2022, the Assembly adopted a new law on civil liability for insult and defamation, a law on payment of compensation to victims of violent crime and a set of amendments to the laws concerning salary increases for the judicial service, public prosecutor's service, and prison police.

In September 2022, the Minister of Justice established a working group working on a new strategy for the justice system (2023–2027). It is expected to be sent to the European Commission for comment and then subsequently adopted in the first half of 2023.

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

Law on Notary, which was adopted in 2018, put in place a new procedure for the appointment of notaries, including a qualifying notary exam, a ranking exam, an exam for a deputy notary, an exam for an assistant notary, an exam for a notary professional associate and a professional exam for checking knowledge.

Amendments to the Law on Courts, adopted in February 2019, strengthened the Republic's Court Case Management System, introduced a new category for young judges, and adjusted 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 stipulated 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 applicable from February 2021, is 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 €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.

Law of Civil Liability for Defamation and Insult, which was adopted November 2022, aims to improve the laws around defamation and insult in order to enable the independent, professional and dignified performance of journalistic professions.

Law on compensation for victims of crimes committed with violence, which was adopted November 2022, for the purpose of implementing the international standards and instruments for a modern criminal-legal system and the establishment of standards for the victims of violent crimes. The right to compensation from the state is defined and limited. International and European Union standards limit the right to compensation from the state only to crimes that cause serious grievous bodily harm and crimes of violence.

Amendments to the Law on Judicial Service and the Law on Public Prosecutor's Service were adopted in November 2022 in order to comply with the Law on Minimum Wage and to increase wages by 15%.

Law on Mediation, adopted in December 2021 and applicable from January 2022, aligned domestic law with the European Union Directive 2008/52/EC on mediation in civil and commercial disputes, such as the principle of voluntary mediation, the principles of equality and informality, impartiality, confidentiality, the availability of information from mediation in other procedures, equality of the parties, fairness, efficiency, and economy.

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. During 2021, two sessions of Reform Council were held. During 2022, one session of Reform Council was held in March. The 2019-2020 and 2021 Reports on the Implementation of the Judicial Reform Strategy presents a general overview of the status of the action plan accompanying the judicial reform strategy.

To identify the problems faced by the Basic Courts in the performance of their judicial functions, a Functional Analysis of the 27 Basic Courts was prepared by the Centre for Legal Research and Analysis, as part of the British Embassy project, "Increased Effectiveness in Enforcement of Justice" which aims to improve judicial institutions. Functional Analyses have also been adopted for the Judicial Council, the Supreme Court, the four Appellate courts and the Academy for Judges and Public Prosecutors.

The Ministry of Justice formed a working group with representatives of the judicial sector that worked on the preparation of a Plan for priority activities for digitalisation in the judiciary for 2021. This plan was adopted by the Government in April 2021 and will be reflected in the current government Strategy for ICT in the Judiciary 2019-2024 in order to ensure a coordinated flow of digitalisation efforts in the judiciary and to provide reliable statistics in line with Commission for the Efficiency of Justice ("**CEPEJ**") standards.

The process of digitalisation of the judiciary reflects the adjustments in parallel with the digital transition of the EU and includes:

- Amendments to the existing legislation for introduction of the concept of digitalisation and online trial (Law on Civil Procedure, Law on Criminal Procedure, Law on Administrative Disputes, Court Rules. Laws on Civil Procedure have already been debated);
- Providing courtroom equipment for online trials;
- Digitalisation of the process of issuing court orders for implementation of special investigative measures for monitoring and recording of electronic communications;
- Upgrading of ACCMIS;
- Introduction of interoperability of courts, public prosecutor's offices, lawyers, notaries, Real Estate Cadastre, Central Registry, State Attorney's Office and other entities; and
- Providing digital services to citizens.

It is important to note that Information and Communication Technology ("**ICT**"), the digital transformation in the judiciary and the accompanying legal framework have gone through significant steps. In this regard, for further modernisation of ACCMIS, with the support of the Kingdom of Norway, the Norwegian Judicial Administration in cooperation with the assessment team composed of regional ICT experts, prepared a comprehensive assessment of the current state of the existing automated court case management system.

On 27 August 2021, an online meeting was held with a representative of the Norwegian Judicial Administration, representatives of the Judicial Council and the SEA to discuss the analysis and proposed recommendations for upgrading ACMIS.

As part of the digitalisation process and with the practical application of the National Platform for Interoperability, certificates of non-conviction from all basic courts can be issued electronically through a website based national service portal. Furthermore, such a digital service will be available for certificates from criminal records and certificates issued for unspoken sanction against a person for performing a profession, activity or duty.

North Macedonia also successfully completed the Explanatory and Bilateral Screening for Chapter 23: Judiciary and Fundamental Rights (held 1 and 2 December 2022). The EC emphasised that the Republic is ready to move forward in the process of achieving reform goals and has adopted a legal framework that it contains the standards of the EU for an independent and impartial judiciary and the proper functioning of the justice system.

Anti-Corruption measures

A Deputy Prime Minister is tasked with coordinating anti-corruption policies and institutions involved in the fight against corruption. Thus, the fight against corruption and the Government's efforts to fight corruption are raised to a higher level.

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 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.

In January 2019, the Law on Prevention of Corruption and Conflicts of Interest was adopted, replacing the previous Law on Prevention of Conflicts of Interest. 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.

The SCPC has undertaken activities to monitor the implementation of the National Strategy for Combating Corruption and Conflict of Interest and the Action Plan 2021-2025, including through a dedicated software solution for collecting data and information from the authorities competent for implementation of the foreseen measures and activities. The first analytical annual report on the implementation of the National Strategy for Combating Corruption and Conflict of Interest and the Action Plan 2021-2025 was prepared by the SCPC in

March 2022 and was submitted to the Parliament and published on the SCPC website. In December 2022, the SCPC collected data on the implementation of the measures and activities for the preparation of the second annual report.

On 13 July 2021, the Government adopted the National Strategy for Capacity Building for Financial Investigations and Property Confiscation (2021-2023) and the Action Plan 2021-2025. The strategy aims to contribute to strengthening the capacities of national institutions, as well as their coordination in monitoring the flow of money and detecting possible concealment and transfer of illegally acquired property.

In August 2021, the Government adopted the Strategy for Combating Money Laundering and Financing of Terrorism (2021-2023). This medium-term strategy ranks the priorities and defines the activities through the realisation of 15 specific goals.

In September 2021, an annual report was prepared for the implementation of the Strategy for Integrity and Fight against Corruption 2019-2022 with an action plan. According to the annual report, 47% of the measures with which the strategy is implemented have been realised, 26% have been partially realised, while 11% of the foreseen activities are in progress.

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. For example, in April 2022 the former Secretary General Muhamed Zekiri was arrested on charges of abuse of his official position under this new Law on Public Prosecution. Mr. Zekiri has since resigned from his position as Government Secretary General.

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 amended to align with the provisions of the new Law on Misdemeanours. In June 2022, the process for harmonisation of the Law with EU Directive 2019/1937 was initiated by the Ministry of Justice.

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. In 2021 and 2022, trainings and national public awareness campaign were conducted by the SCPC and the authorities participated in a regional campaign with events organised in Skopje and conducted by the Regional Anti-Corruption Initiative.

In June 2021, a new law on lobbying was adopted. Implementation of the new law commenced in June 2022. The main purpose of the law is transparency in the preparation, adoption and amendment of public policies (*i.e.*, programmes, laws, bylaws or other general legal acts) and prevention of covert lobbying. During of its preparation, international standards in the field of lobbying regulation were considered, along with the CE Recommendation CM/Rec (2017) 2 and the Group of States against Corruption ("**GRECO**") recommendations from the fourth and fifth evaluation rounds.

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 budget for 2022 increased by 59%, compared to the budget for 2019. The number of employees in the SCPC Secretariat has doubled, compared to its number in 2020.

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.

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.

The most recent local elections were held to elect councillors and mayors in 72 of the 80 municipalities in the Republic and in the City of Skopje at the end of 2021. VMRO-DPMNE won in 42 municipalities, SDSM won in 16 municipalities, DUI won in 10 municipalities, a coalition of Alliance for Albanians, Alternative, GROM and DPA in 1 municipality, a coalition of LDP and DOM won in 1 municipality and independent candidates won in 2 municipalities and the city of Skopje.

Overview of the Current Political Situation

Presidential Elections

The President of the Republic of North Macedonia is Stevo Pendarovski, who was elected on 6 May 2019. President Pendarovski was a proposed presidential candidate of the SDSM-DUI coalition.

Assembly Elections 2020

The latest Assembly elections were held on 15 July 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 were 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 to the Assembly in January 2020 and led by former interior minister Oliver Spasovski until the scheduled parliamentary elections on 15 July 2020.

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
Levica (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.

On 16 January 2022, Prime Minister Dimitar Kovačevski was elected by the Assembly. The newly elected Prime Minister Kovačevski and government were elected after the previous Prime Minister, Zoran Zaev, elected after the early parliamentary elections on 31 August 2020, resigned as Prime Minister and SDSM party head, because the SDSM, the ruling party at the time, lost the local elections at the end of 2021. After that, in direct intra-party elections, SDSM elected Dimitar Kovačevski as its new president, and after securing a new and expanded parliamentary majority, Kovačevski then received a mandate to form the new government, which continues to be in place.

The next elections will be held in 2024.

International Relations

General

The Republic is a sovereign state at the crossroads of Central and Southeast Europe. The Republic 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 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 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**"). The Republic 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. The Republic was the initiator and one of the founders of both the Charter of Partnership between the Republic, 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. In 2023, the Republic will chair the Organisation for Security and Co-operation in Europe ("**OSCE**"), which was unanimously endorsed by the 56 member states. See "*— International Relations— Regional Relations*".

NATO Accession

On 27 March 2020, the Republic 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 society in North Macedonia. 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 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. The Republic will take over the Chairmanship of the US-Adriatic Charter in 2023.

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.

Since 2019, the Republic has participated in NATO and the EU's efforts in improving awareness of and building resilience for defining and recognising hybrid national security threats. The Republic implemented a national strategy to recognise and combat hybrid threats, including cyber defence.

NATO and the EU responded decisively to the war in Ukraine, by imposing unprecedented sanctions on Russia, supporting Ukraine with military, humanitarian and financial aid, and providing major reinforcement to NATO Deterrence and Defence posture, particularly on the eastern flank of NATO. North Macedonia adequately responded and joined these efforts. Following the Russian aggression of Ukraine, the Republic demonstrated its commitment to stand along with its Euro-Atlantic partners, as a member of NATO and as an aspirant for EU membership, by fully aligning with the restrictions and sanctions against Russia and aligning with the EU Common Foreign and Security Policy.

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 President Biden administration, 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 launch of the strategic dialogue between the Republic and the United States on 2 June 2022 was an important milestone in bilateral relations between the two nations and a step forward in the implementation of the Declaration of Strategic Partnership and Cooperation. The Republic was the first country in the Western Balkans to start a strategic dialogue with the United States.

The Republic is a strategic partner and ally of the United States, focused on the common commitments to security, freedom and democratic prosperity, as well as on the joint activities in the fight against terrorism and other threats to peace globally. The Republic is committed to elaborating on and implementing the Action Plan, which aims to enhance cooperation between the two countries and deepen the bilateral relations in specific areas of mutual interest.

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 the biggest trading partner to North Macedonia, accounting for total trade exchanged of US$4.4 billion in the first eleven months of 2022, representing 27% of total trade exchanged.

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, with the total exchange of goods and services between North Macedonia and the United Kingdom in 2021 of US$2.2 billion. This was composed of US$210.8 million of goods and services exported from North Macedonia to the United Kingdom and US$2.0 billion of imports from the UK to North Macedonia. The UK is the second largest trade partner to North Macedonia and one of the largest foreign direct investors in the Republic, and North Macedonia is the UK's largest trade partner in the Western Balkans.

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 preferential terms secured by the Partnership Agreement enable businesses of the UK and North Macedonia to continue to trade as they did before Brexit. With the entry into 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 engages and encourages cross border cooperation opening of new border crossings with its neighbours to increase mutual cooperation and communication.

North Macedonia has participated in regional initiatives aimed at improving cooperation, interconnectivity, stability and sustainable development of the region, including but not limited to, SEECP, RCC, Central European Initiative ("**CEI**"), Western Balkan 6, (as well as B6 initiated by the Republic), the Berlin Process, the Western Balkans Fund, Migration, Asylum, Refugees Regional Initiative ("**MARRI**"), the EU Strategy for the Adriatic-Ionian Region, the South East European Law Enforcement Centre, the South-eastern Europe Health Network, the Regional School of Public Administration, the RACVIAC – Centre for Security Cooperation and the Black Sea Economic Cooperation Organisation. In 2022, North Macedonia expressed interest in joining the Three Seas Initiative and the Union for the Mediterranean.

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. Since 13 April 2020, essential goods have travelled smoothly through the Green Lanes in the Western Balkans due to the initiative of the CEFTA 2006.

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.

During the co-chairmanship of North Macedonia and Bulgaria of the Berlin Process for the Western Balkans 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 to serve as a stepping-stone towards a single EU 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.

In 2019 North Macedonia, Albania and Serbia launched the mini-Schengen regional cooperation initiative, modelled after the Schengen Agreement and in 2021 it was renamed to the Open Balkan. The aim is to increase trade and co-operation and improve bilateral relations. Open Balkan is complementary to the wider EU accession efforts as it allows for the removal of certain barriers and increases economic and societal cooperation. On 10 June 2021, at the Tirana Summit, the Open Balkan members agreed to the following: (i) free access to the labour market and the introduction of a single work permit for these three countries, (ii) connection to an electronic system for identification of citizens, (iii) cooperation in the field of veterinary, phytosanitary, food safety and animal feed control and (iv) cooperation between accreditation bodies.

On 6, 7 and 8 June 2022 the fourth working meeting of the Open Balkan Initiative was held in Ohrid, North Macedonia. In July 2022, meetings of the Open Balkan working groups on energy, food safety and finance were held in Tirana. On 21 October 2022, the Republic attended the Open Balkan conference on regional tourism cooperation, which was held in Belgrade.

The Government initiated and established an international conference "The Prespa Forum Dialogue" (the "**PFD**"). The first conference was held on 1 and 2 July 2021 in Ohrid, North Macedonia. The PFD seeks to enable countries, leaders and organisations to build long-term relationships and strengthen partnerships. On 16, 17 and 18 June 2022, the second conference was held in Ohrid.

On 13 September 2021 the Western Balkan countries attended a summit relating to the development of the railways in the region and signed a declaration on improving the quality and speed of railway network services by expanding the trans-European transport network in accordance with EU standards. The declaration obliges the Western Balkan countries to establish direct railway connections between major cities, to digitise railway interconnection systems and enable data exchange for cross-border transport of goods and passengers. This will develop intelligent transport systems and with the aim of reducing accidents. The intended completion date is the end of 2025.

On 19 October 2021 the Republic, Albania and Bulgaria, signed a memorandum of cooperation to build sustainable infrastructure along the pan-European Corridor VIII and committed to complete the new section by 2030.

The Republic initiated the start of the informal platform for political cooperation, Balkans 6 ("**B6**") in order to deepen and facilitate cooperation between the countries in the region in areas of common interest. The third meeting of B6 was held as part of the second PFD conference on 16, 17 and 18 June 2022. The meeting was held in the presence of the special representatives for the Western Balkans from the United States, the EU, the UK, Germany and Austria.

The Republic is a signatory of the Declaration of the Western Balkan countries for improving the quality and speed of the railway network services by expanding the trans-European transport network in accordance with EU standards. On 7 June 2022, the Summit on Roads in the Western Balkans was held in Tirana, North Macedonia. The summit was held in the presence of senior representatives of the European Investment Bank for the Western Balkans and Turkey. At the summit the possibilities for financial support for the construction of the railway on Corridor 8 and the construction of the third phase of the railway connection the Republic and Bulgaria (the section from Kriva Palanka to the Deve Bair border crossing) were discussed.

On 1 October 2022, President Pendarovski participated in the official opening of the Gas Interconnector between Bulgaria and Greece for the supply of natural gas from Azerbaijan (Caspian Basin). The project has an initial capacity of 3 billion cubic metres of natural gas per year. Serbia, which is part of the network connection in this project, announced its readiness to join the Serbian part of the Gas Interconnector to the Republic.

In recent years, North Macedonia has experienced large inflows of migrants and refugees travelling to the EU through Southeast Europe and applying for asylum in EU 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. Since 2015, 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 to the southern border of North Macedonia. Following the EU-Turkey Summit held in March 2016, the flow of migrants through the Balkans Route significantly declined.

The Republic supports the unified character of the country, its independence, sovereignty and territorial integrity, as well as the inviolability of its borders. The Republic has joined all EU restrictive measures and sanctions in response to the crises in Ukraine and is aligned with all common foreign and security policy decisions regarding territorial integrity of Ukraine. Furthermore, the Republic joined all the EU statements, declarations and positions on Ukraine and offered extended military and humanitarian assistance to Ukraine in line with the requests. The Republic is active at the multilateral level as well, having co-sponsored the Security Council draft resolution condemning the Russian aggression against Ukraine, and consequently its tabling at the UN General Assembly, supported the decision to suspend Russia’s rights of representation at the Council of Europe and supported the Statement of the Governing Council of the Community of Democracies on Ukraine). The Republic has continued to reaffirm its support for Ukraine through social media and other public events. The Republic is a member of the Crimean Platform initiated as an international coordination mechanism for re-examining the issue of Crimea, with an emphasis on the sovereignty and territorial integrity of Ukraine and relying on the norms of international law, resolutions of the UN General Assembly and other international organisations.

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. On 9 July 2021 a bilateral agreement was signed relating to the interconnection for transmission of natural gas between Greece and North Macedonia. The first round of negotiations is expected to take place in 2022. 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. North Macedonia remains fully dedicated to the implementation of the Prespa Agreement. In 2021, Greece was the fourth largest trade partner for the Republic, with a share of 5.7% of total trade. The share in export was 3% and the share in import was 10.7%. The total trade exchange of goods and services between the Republic and Greece was US$943.3 million, which was composed of US$206.0 million of goods and services exported from the Republic to Greece and US$737.3 million of imports from Greece to the Republic. The total trade exchange with Greece increased by 50.4%, with a 17.3% increase of export from the Republic to Greece was 17.3% and a 63.2% increase in import from Greece to the Republic. The growth of imports from Greece compared to the export of goods was facilitated due to increases in import prices of mineral fuels due to the dynamic growth of prices on world stock exchanges. The import of mineral fuels from Greece was US$512.5 million which was 60.2% of imports from Greece.

Since the signing of the Prespa Agreement, the Republic and Greece have maintained constructive bilateral cooperation that is primarily aimed at fulfiling the Prespa Agreement, for which working and expert groups have been established. Greece is a strategic partner of the Republic that strongly supports North Macedonia's accession to the EU. Total trade with Greece for the period from January 2022 to September 2022 was €1.3 million, of which exports made up €0.2 million and imports made up €1.3 million.

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 South-Eastern Europe Defence Ministerial 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. On 7 October 2021, the Ministries of Agriculture of Albania and North Macedonia signed an Agreement on the Recognition of Phytosanitary Certificates, as part of the "mini-Schengen" framework. On 10 June 2021, an agreement for cooperation was signed between Albania and North Macedonia on joint customers and border controls. On 14 November 2022, the Second Joint Session between North Macedonia and Albania was held in Skopje, during which agreements were signed in the sectors of security, defence, infrastructure, energy, education, science and culture. Total trade with Albania from January 2022 to August 2022 was €135.2 million, of which exports made up €71.2 million and imports made up €64.0 million.

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 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, harmonising 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 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 realisation 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 was reviewed by the Ministry of Foreign Affairs of the Republic. Following the elections in Bulgaria in November 2021, newly elected Prime Minister, Kiril Petkov, expressed the importance of future cooperation with North Macedonia.

There is an effort from Bulgaria and the Republic to improve the dialogue between the two countries to implement the Friendship Treaty. On 25 January 2022, a Joint Session of the Governments of the Republic and Bulgaria in Sofia was held. At this session, six working groups were established: Working Group 1: Economy, Trade and Innovation; Working Group 2: Infrastructure, Transport and Communication; Working Group 3: European Integration and Green Policies; Working Group 4: Culture, Science and Education; Working Group 5: Multidisciplinary Expert Committee on Historical and Educational Issues; and Working Group 6: Other Bilateral Topics. The total trade between North Macedonia and Bulgaria in the period from January 2022 to August 2022 was €0.8 billion, with imports making up €0.5 billion and exports making up €0.3 billion.

The political dialogue between North Macedonia and Bulgaria during 2022 occurred at the level of the Ministry of Foreign Affairs and the Ministry of Foreign Affairs expert group. This negotiation culminated with the Second Meeting of the Joint Intergovernmental Session, which was held on 17 July 2022 in Sofia. At this meeting, negotiations were conducted with the French Presidency of the EU, which aligned the compromise solution between the Republic and the EU with the formal opening of the negotiation process. After this negotiation, the screening process with the European Commission was initiated. In order to complete the negotiations process, North Macedonia has committed to implementing several constitutional changes, consisting of, among other changes, the inclusion of citizens from other ethnic backgrounds (such as Bulgarians) in the Constitution, which is in line with existing internal procedures. To support the implementation of the protocol that resulted from the Second Meeting of the Joint Intergovernmental Session, thematic working subgroups have been established, including on hate speech, on the rehabilitation of victims of the communist period, on the implementation of adopted recommendations from the historical commission, on protection against discrimination, and on the issue of historical coverage in school textbooks.

In November 2022, Bulgaria's gas transmission operator Bulgartransgaz signed an interconnection agreement with the gas transmission operator of North Macedonia GA-MA for the Kyustendil/Zhidilovo point. The interconnection point Kyustendil/Zhidilovo is not new and is the only entry point for the supply of natural gas into North Macedonia, however, the interconnection agreement provides for an increase of the technical transmission capacity to North Macedonia with 500,000 cubic metres per day or an increase of 182 million cubic metres per year.

EU Accession

Since the Republic's independence, Euro-Atlantic orientation and EU accession have been, and remain, a strategic priority of the Government. 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.

In April 2001, North Macedonia signed the 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 products of North Macedonia 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 2019).

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 has continued to make progress towards full compliance with the SAA. April 2022 marked the 21st 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, releasing in full its association status.

During the last two decades, the Republic has undertaken significant reforms to align itself with the EU and continues its efforts to strengthen democracy and the rule of law by activating existing checks and balances. As a result, several hundred new legal acts were introduced, transposing approximately 45% 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, Commission for Prevention and Protection against Discrimination 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. 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 unanimously 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, fulfiling the conditions identified by the Council in June 2018.

The EC presented the draft negotiation framework (the "**NF**") 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 prevented the adoption of 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, linguistic matters and the protection of minority rights matters. Due to the change in government in Bulgaria during 2021, new dynamics in the dialogue between Bulgaria and the Republic ensued and five joint working groups were created to cover all major areas of potential cooperation. On 17 July 2022 North Macedonia and Bulgaria signed the protocol of the second meeting of the joint inter-governmental meeting which paved the way for adoption of the Council of the EU Conclusions and NF on 18 July 2022. On 12 October 2022, the EC published the North Macedonia 2022 Report, which highlights the progress made by the Government in meeting the political and economic criteria set out as part of the EU accession process. The report recognizes the determination of North Macedonia to implement these EU-related reforms.

Subsequently, the first inter-governmental conference between the North Macedonia and EU was held on 19 July 2022, thus formally opening the accession negotiations and the screening process as a part thereof. Based on the calendar agreed with the EC, the screening process started on 15 September 2022 and should be completed by November 2023. It includes explanatory meetings for the update of the EU acquis and bilateral meetings where the country presents the level of alignment of the national legislation. The bilateral screening on the fundamental cluster of national legislation was successfully completed on 7 December 2022, while the bilateral screening on the internal market cluster of national legislation began on 23 January 2023 and is expected to be finalised on 14 March 2023. The screening process for all clusters of national legislation is expected to be completed by November 2023. North Macedonia has set 2030 as a target date to be prepared to join the EU.

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 II**"). IPA II is expected to be fully implemented by 2025. Under IPA II, North Macedonia implements approximately €664.0 million in assistance for use in fulfiling 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. 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. Under IPA II, North Macedonia also implements IPA II programmes subsidising households and companies involved in agriculture and rural development.

The European Commission prepared the third cycle of the IPA ("**IPA III**") within the new Multi-Annual Financial Framework (2021-2027). The full implementation date for IPA III is expected in spring of 2034. The implementation of IPA III was launched in the spring of 2020 when the IPA structures began the drafting process of IPA III Strategic response and the first two annual programmes for 2021 and 2022. In addition, amid the energy crisis at the end of 2022, the EU assisted the Republic with a package of direct budget support in the field of energy in the amount of €80 million. These funds are allocated from the budget of IPA 2023.

This 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 framework IPA III focuses on 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. Currently, the Republic has released the anticipated programming for 2024, including the first operational programmes of the IPA III on transport, environment, energy and labour. The action fiches proposed to be funded under IPA 2023 programme will be funded under IPA 2024 programme.

The Government adopted, and the Assembly ratified, the Financial Framework Partnership Agreement, which lays down the rules for implementation of IPA III. This ratification ensures that the appropriate legal ground is in place for the implementation of IPA III. The first financing agreement for the IPA 2021 Annual Action Programme was also signed at the end of 2022.

The first Single Project Pipeline ("**SPP**") for funding projects under IPA II and the Western Balkans Investment Framework ("**WBIF**") was prepared in 2015 and the latest update was in January 2022. It includes funds allocated under the IPA II and III programmes. 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). The NIPAC office launched the revision of the SPP in 2022 and it expects to publish the revision in the first quarter of 2023.

NPAA

The vision and implementation of the accession agenda by the Government 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 revised NPAA 2021-2025 was adopted by the Government in June 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 20 years and, as a result, has achieved a significant level of alignment with the EU Acquis. The next NPAA revision will cover the period 2023 to 2030 and will plan for alignment with EU acquis to ensure the continuity of the accession process and maintain the capacity of the coordination structures necessary for bilateral screening.

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 "Economy of North Macedonia— Public Investments*".

The following table provides the breakdown of current financial support from international organisation aimed to bolster North Macedonia's economy:

Financial Institution	**Financing Amount**	**Disbursed Amount**
	(EUR millions)	
IMF (precautionary and liquidity line)	530.0	107.2
World Bank (emergency loan and contingency emergency response component)	127.0	114.6
European Commission (macro-financial assistance)	160.0	160.0
IMF (rapid financing instrument)	176.5	176.5
Total	993.5	558.3

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 from the IMF's Rapid Financing Instrument ("**IMF RFI**") in response to the outbreak of the COVID-19 pandemic. For further information, see "*Risk Factors—The economy of North Macedonia 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*".

On 2 August 2021, the Board of Governors of the IMF adopted the Resolution No. 76-1 "Allocation of Special Drawing Rights for the Eleventh Basic Period". This general allocation of Special Drawing Rights ("**SDRs**") 456.5 billion (equivalent to about US$650 billion) became effective on 23 August 2021 and for the Republic was allocated SDR 134.5 million.

On 9 December 2021, The Parliament of the Republic of North Macedonia adopted the Law on Regulation of the Liabilities of the Republic of North Macedonia to the International Monetary Fund on the basis of using the funds from the General Allocation of Special Drawing Rights approved by Resolution of the Board of Governors of the International Monetary Fund no.76-1. The Law entered into force on 13 December 2021 and was published in the "Official Gazette of the Republic of North Macedonia" No. 276/21.

On 14 December 2021, the Ministry of Finance and the National Bank of the Republic of North Macedonia reached an agreement regulating the use and return of funds from the general allocation of special drawing rights approved by the Resolution of the Board of Governors of International Monetary Fund No. 76-1. On 28 December 2021, an inflow of funds in the amount of €166.3 million was recorded on the account of the National Bank on the basis of sale of SDR 134.5 million and the funds were transferred to the Ministry of Finance account. The funds were used to finance budget expenditures and debt repayment.

On 4 November 2022, the Ministry of Finance and the National Bank sent a formal request for support to the IMF in the form of a 24-month Precautionary and Liquidity Line ("**PLL**") arrangement in the amount of SDR 406.87 million (290% of quota), or approximately €530 million. IMF's positive assessment on qualification for the PLL is consistent with the Executive Board assessment during the Article IV discussion in February 2022, as well as with the informal Executive Board discussion in April 2022. The assessment demonstrates the soundness of the country's fundamental economics and its institutional policy framework.

North Macedonia intends to exit the PLL at the current expiry of the arrangement in 2024. The PLL will help the country weather the current shocks and allow it to sustain its policy efforts. The authorities believe that, by the end of 2024, the programme and related reforms will put the economy of North Macedonia in a stronger position. The two-year duration is in line with the duration of the previous PLL in the period 2011-2013, which was sent during the European sovereign debt crisis.

On 15 November 2022, the Parliament of the Republic adopted the Law on Borrowing a Precautionary and Liquidity Line by the Republic of North Macedonia from the International Monetary Fund and it was published in the "Official Gazette of the Republic of North Macedonia" No. 246/22. The law came into force on 16 November 2022.

On 21 November 2022, the Board of Governors of the IMF approved the request for PLL.

The Republic intends to draw the full amount of 145% of quota, or SDR 203.4 million, that is available in the first year of the arrangement. The Republic then intends to treat the other 145% of quota, which is expected to be made available during the second year of the arrangement, on a precautionary basis. The drawn amounts will be channeled to the government's account at the NBRNM and used for budget financing. A first inflow of funds was received in the amount of SDR 84.18 million and was recorded on the account of the National Bank on 23 November 2022, and the funds were transferred to the Ministry of Finance account. The funds have been used to finance budget expenditures and debt repayment.

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$2.7 billion as at 31 October 2022. 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:

- *Building Effective, Transparent and Accountable Public Finance Management Institutions Project.* The project 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.

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:

- *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. To fulfil the original scope and development objectives of the project, in October 2020 the Government requested that the World Bank provide additional funds in the amount of €37 million for the Local Roads Connectivity Project. These funds were intended to replenish the funds previously used through the Contingency Emergency Response Component ("**CERC**") Project component. The loan agreement for the additional financing was signed on 29 July 2022.

- *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 31 October 2022, €77.6 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 objective of this project is to improve transportation connectivity for road users along Corridor VIII.
- *Agriculture Modernisation Project.* The objective of this project is to improve competition in targeted agricultural sub-sectors and to 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.
- *Primary Education Improvement Project (PEIP).* The objective of this project is to improve conditions of children's learning in primary education.

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 15 November 2022, the total value of all finance contracts signed with EIB is approximately €1.1 billion (including concluded loans and guarantees issued by the Government).

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, fecal sewage systems and wastewater treatment stations in the municipalities in North Macedonia. This project is expected to be completed in December 2023. Additionally, in May 2022, the EIB Board of Directors approved the new Municipal Water Infrastructure Project (which comprised of a €50 million loan). On 23 November 2022, the corresponding finance contract for this loan was signed. The successful implementation of the previous six credit lines for supporting small to medium sized enterprises and mid cap companies ("**SMEs**"), created a need for a new credit facility to be available to the private sector. The new €100 million credit line is intended to finance SMEs, MID-CAP projects and projects for green transition, in accordance with the economic measures of the Government. As of the date of this Offering Circular, the Guarantee Law is undergoing the parliamentary approval process and the signing of the new €100 million credit line is expected to take place shortly after the approval is made.

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 WBIF. The project is still awaiting approval from the EIB.

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:

- *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, Kumanovo – Kriva Palanka*. 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 (*Kumanovo-Beljakovce*) and second (*Baljakovce-Kriva Palanka*) 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 for the second phase was secured in the amount of €68.6 million, which will help finance the rehabilitation of the second section of the railway.

- *National Roads Programme*. This project aims 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 by 31 December 2023.

- *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. In addition, a €2.42 million WBIF investment grant was secured to help finance the construction of this road section.

- *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 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.

- *Air Traffic of North Macedonia Service Enterprise Upgrading Project.* The aim of this project is to improve the performance of the entire air traffic control system.

- *ESM Solar PV Transition Project.* The aim of this project is to assist the Republic in the implementation of 30 MW solar photovoltaic ("**PV**") project consisting of (including both the construction and operation): (i) a 10 MWac "Oslomej 2" expansion on the exhausted coal mine of TPP Oslomej, and (ii) a 20 MWac "Bitola" power plant adjacent to TPP Bitola, including the transmission line and sub-station upgrades.

- *Road Corridor VIII – Phase I Project.* The aim of this project is to facilitate construction of Subsection 1 and Subsection 2 of motorway E-65 with a total length of 10.2km between Bukojchani to Kichevo. By constructing the road infrastructure along Corridor VIII, construction of Pan-European Corridor in the Republic will be completed, being significant for better connection of the Republic, Albania and Bulgaria with the other European countries.

- *Skopje Bus Rapid Transit Project.* The aim of this project is to improve the quality of passenger transport services, reduce the duration of passenger transport, and improve accessibility and use of transport services for individuals with disabilities. This Project includes the development of two lines of a bus rapid transit system in the City of Skopje. Namely, the project envisages the construction of road corridors, which are reserved only for buses (e.g. bus lanes in the middle or on the edge of the boulevards).

- *TEN – T Skopje - Kosovo Border Motorway Project.* The aim of this project is to assist in the construction of approximately 10 kilometres-long new subsection of the TEN-T Motorway A4 running from Blace Interchange to Skopje (*Interchange Stenkovec*), near the border with the Republic of Kosovo.

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.

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) Regional Solid Waste Project (signed on 17 January 2022), which includes the development of regional waste management systems in the following regions of the Republic: Pelagonija, Southwest, Polog, Vardar and Southeast region, and (ii) 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 Republic, 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.

- *Prison Reconstruction Project*. This project includes construction, reconstruction, refurbishment and expansion of prisons and correctional facilities in Republic 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.

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 will use €64.1 million funds granted from IPA II and a €149.2 million WBIF grant, 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). This project is financed by loans from the EIB and EBRD, as well as a €69.8 million WBIF investment grant.

- *Gas Interconnector Greece – North Macedonia, North Macedonia Part Project*. Implementation of this Project aims to provide stability in the energy supply to, and to contribute to the economic growth of, all regions in the Republic. Total investment value of the project amounts to €57.8 million, of which €28.9 million has been provided as a loan from EIB, an additional €12.4 million has been provided under WBIF as an investment grant, to be managed by the EIB, and the remaining €16.5 million of which will be provided by EBRD.

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 "Economy of North Macedonia—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.

- *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 three more turbines, which will increase total capacity by 13.2 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.

In addition to the activities for the implementation of on-going projects referred to above, continued cooperation with KfW is expected to focus on preparation and implementation of the project "Rehabilitation Programme for six HPPs – Phase III". This Project is considered to be crucially important for enhancing the energy capacities of, as well as accelerating the economic growth.

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

With a drawdown loan from Deutsche Bank AG and Erste Group Bank AG that is completely disbursed, the Republic is financing the construction of the following sections of the gas pipeline: (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 2023.

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 by the end of 2023. By developing road infrastructure in this part of the Republic, 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 still to be determined.

- The claimants are several Ukrainian investors in a precious metals concession in North Macedonia. The claimants filed a lawsuit with the International Centre for Settlement of 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 was postponed and is yet to be rescheduled.

- An arbitration case against the Republic 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 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 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 remains 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 five 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. The cases are still pending before the ECHR therefore no outcome can be foreseen at the present time.

In an additional case, the applicants have asserted damages of approximately €38 million in a claim, which is supported by an expert report. In another case, with proceedings for ECHR against the Government, the applicant has asserted damages of approximately €3.5 million. These two cases, which are still pending before the ECHR, 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 were 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.

ECONOMY OF NORTH MACEDONIA

Recent Developments

The direct effect of the Russian/Ukrainian conflict on the economy of North Macedonia is limited due to the low levels of foreign trade with these countries and low level of investments from these countries. In 2021 only 0.7% of total exports from North Macedonia were sent to Russia and only 0.2% of total exports were sent to Ukraine. The share of imports from Russia and Ukraine of the total imports of North Macedonia in 2021 was 1.6% and 1.3%, respectively. Foreign direct investment from Russia and Ukraine was only 0.5% in 2021. In addition, Russia and Ukraine are not present in the financial sector of the Republic.

However, the indirect effects could be significant given that the Republic's economy is a small and open economy, and the developments in Ukraine have had a significant adverse effect on the European and global economies through additional supply chain disruptions that limited post-pandemic recovery efforts and through inflation pressures. The growth of food and energy prices on world stock exchanges have kept inflation rates relatively high for a longer period, disrupting the expectations for the stabilisation of inflation from the second half of 2022. In September 2022, the domestic inflation rate continued its upward trend, reaching 12.4%, driven by the growth of food and energy prices, which contributed to the 74% in price growth. The trade deficit in the first nine months of 2022 was 53.4% higher than the same period in 2021, and 81.4% of the increase was due to the increased deficit in the energy exchange (oil, natural gas and electricity) as a result of high prices on the international market.

Based on the Passenger Entry/Exit Control System ("**SKPV**"), between 24 February 2022 and 31 March 2022 3,009 Ukrainian citizens entered the Republic and 2,173 Ukrainian citizens exited the Republic. These figures refer to the total number of registered Ukrainian citizens, including individuals who have entered or exited the Republic on foot, by car, by bus, by truck, and by plane. This does not include refugees, but does include truck drivers, businessmen, tourists and individuals entering or exiting who are not refugees.

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 facemasks 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 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. As of 31 December 2022, 875,940 people (46.0%) were vaccinated with the first dose of the vaccine, 857,016 people with the second dose (45.0%), 162,965 (8.56%) people with the third dose and 8,585 (0.45%) with a fourth dose.

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 2021 Article IV Consultation, published in February 2022, fiscal policy support has mitigated the negative impact of the COVID-19 pandemic. Fiscal support prevented large job losses protected the most vulnerable populations, while monetary and financial measures helped maintain credit flow to the economy. According to October 2022 data from the IMF, the GDP of North Macedonia in 2022 is expected to increase by 2.7%, which is consistent with other countries in the region.

	For the year ended 31 December		
	2020	**2021**	**2022**
		(%)	
North Macedonia	(6.1)	4.0	2.7
Albania	(3.5)	8.5	4.0
Bosnia and Herzegovina	(3.1)	7.5	2.4
Bulgaria	(4.4)	4.2	3.9
Croatia	(8.1)	10.2	5.9
Greece	(9.0)	8.3	5.2
Serbia	(0.9)	7.4	3.5
Montenegro	(15.3)	13.0	7.2

Source: IMF, World Economic Outlook Database, October 2022

Since the COVID-19 outbreak, the Government has adopted six packages of measures aimed at supporting the economy through the crisis caused by the COVID-19 pandemic, with an estimated cost of approximately €1.2 billion. Under these packages, approximately 90 different measures have been adopted, covering and supporting entities and individuals affected by the COVID-19 pandemic.

All of these measures focus on the citizens, their jobs, social security, solidarity, creating an environment in which it is easier to overcome of the economic consequences of COVID-19 and implementing a fast exit strategy once the crisis is over, all with the goal of supporting positive trends in the economy of North Macedonia.

These measures were created transparently and through an inclusive process, in which chambers of commerce, trade unions and employers' organisations participated, with the aim of covering the maximum number of citizens affected by COVID-19.

The first package of measures adopted on 18 March 2020 and intended for use throughout 2020, with a total value of €36 million. The second package of measures adopted on 31 March 2020 and intended for use throughout 2020, with a total value of €160 million.

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 and was intended for use throughout 2020. A fourth package of measures was announced on 27 September 2020 and was intended for use throughout the end of 2020 and 2021, with a total value of €470 million.

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 COVID-19 pandemic); and an instruction to minimise 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 economy of North Macedonia, 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 and was intended for use throughout the end of 2020 and 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, digitalisation and investments in innovation and to support revitalisation and development.

The sixth set of measures, adopted in April 2021 and was intended for use throughout the end of 2020 and 2021, contained seven anti-crisis measures with a total value of €25.7 million. Gross investment in 2021 increased by 9.2% in real terms. The annual change in gross investment in 2021 amounted to a decrease of 15.3% in the first quarter, an increase of 40.7% in the second quarter, an increase of 0.4% in the third quarter and an increase of 21.2% in the fourth quarter. Measures are targeted towards those sectors deemed most affected by the COVID-19 pandemic, and aim to support 10,000 companies and approximately 60,000 employees.

The Government also provided additional financial support for employees in the public health institutions during 2021. For a period of nine months, the Health Insurance Fund paid a bonus of 5% of salary for all employees in Public Health Institutions. The total amount that was paid for the salary bonus was MKD 389.3 million, or €6.3 million.

Budget for the Republic of North Macedonia for 2022

The Budget for 2022 was adopted on 20 December 2021.

Budget funds for the energy sector

The Government intends to act in the best interest of the domestic economy and the financial position of the citizens of the Republic. Since the beginning of the crisis in 2021, the Government has reacted in a timely manner by providing direct financial support from the Budget to the domestic state companies to ensure domestic production of electricity with the goal of uninterrupted energy supply to the population and the economy.

Due to the situation in the electricity and energy markets, the Government adopted a decision confirming a crisis situation in electricity supply in the Republic ("*Official Gazette of the Republic of North Macedonia" No. 252/21 and 188/2022*). As such, measures aiming to mitigate the effects of the crisis have been undertaken. The following table outlines budgetary decisions that were made as a result of the energy prices and the amount of funding that was allocated for those decisions.

Ordinal number	**Description**	**den.**	**EUR**
1	Lack of electricity	4,000,000,000	65,000,000
2	Start of electricity production at TPP Negotino	930,000,000	15,000,000
3	Additional production of quantities of electricity	364,000,000	6,000,000
	Total payments in 2021	5,294,000,000	86,000,000
1	Realisation of projects in the field of energy, production and provision of additional quantities of electricity	670,000,000	11,000,000
2	Heat production	360,000,000	6,000,000
3	Supply of fuel oil for TPP Negotino	615,000,000	10,000,000
4	Additional quantities of electricity from the Company for production of electricity and heat TE-TO S.A. Skopje	54,00,000	900,000
5	For MEPSO – withdraw alof electricity from the international market	665,000,000	11,000,000
6	For ESM for electricity production (for TE-TO)	2,900,000,000	47,000,000
7	For ESM for electricity production	3.100,000,000	50,000,000
8	Heat protection	1,100,000,000	18,000,000
9	For ESM for electricity production	700,000,000	11,000,000
10	Heat protection	800,000,000	13,000,000
11	For ESM for electricity production	1,500,000,000	24,000,000
	Total payments in 2022	12,464,000,000	203,000,000
	Total 2021-2022	17,758,000,000	289,000,000

Tax measures related to energy and price increases in 2022

Several anti-crisis measures in the tax space were introduced in 2022 and were aimed at stabilising the prices of basic consumption products, fuels and natural gas at the domestic market. These measures were brought forward through the amendments of the VAT Law ("Official Gazette of the Republic of North Macedonia" No. 57/2022 from 12 March 2022).

The anti-crisis measures were temporary in nature and encompassed the following changes:

- reduction of the VAT rate for the supply of fuels and natural gas from 18% to 10%. This amendment to the VAT Law further defined the criteria and types of fuels and natural gas that has been subject to lower VAT rate in the period of emergency or energy crises ("Official Gazette of the Republic of North Macedonia", No. 57/2022 from 12 March 2022);
- application of a reduced VAT rate of 5% for the supply of electricity to households was prolonged for an additional six month period until the end of December 2022. The reduced VAT rate of 5% for the supply of electricity for households was initially introduced as a temporary solution in July 2021 with an aim to stay in force until 30 June 2022;
- exemption from taxation with VAT on the import of electricity and natural gas through the transmission and distribution systems, as well as a reverse charge mechanism for the supply of these goods; and
- reduction of the preferential VAT rate of 5% to 0% for the supply of the basic food products ("Official Gazette of the Republic of North Macedonia" No. 57/2022). The amendment to the VAT Law also defined the criteria and the types of basic food products that were subject to tax exemption as well as the time period of implementation of the measure ("Official Gazette of the Republic of North Macedonia" No. 57/2022 from 12 March 2022).

These anti-crises measures were temporary in nature and, other than the extensions mentioned above, were in force until 31 May 2022.

Excises

The law amending the law on excises ("Official Gazette of the Republic of North Macedonia" No. 57/2022 from 12 March 2022) prescribed a possibility for a reduction of the excise duty on unleaded petrol, gas oil as propellant and gas oil as heating fuel, depending on the increase in the price of energy on world markets, in exceptional circumstances of natural and other disasters or epidemics, military conflicts, emergency or crisis situations, or in a case of serious disturbances in the supply with energy products in the country, in which case the Government determines more closely the type of fuel, the period of application of the reduced rate and the manner of calculation of the excises.

Decision for determining the type of fuels, the time period of application of reduced excises and the manner of calculation, was adopted by the Government in March 2022 ("Official Gazette of the Republic of North Macedonia" No. 58/2022 from 12 March 2022).

This anti-crisis measure was also temporary in nature and was in force until 31 May 2022.

Tax Reforms

Guided by the goals and priorities identified with the Tax System Reform Strategy (2021-2025) (i.e., ensuring a fair, efficient, transparent and modern tax system based on digital technologies and innovations in taxation, in support of an accelerated, inclusive and sustainable economic growth), in 2022 the Ministry of Finance embarked on tax policy reforms aimed at improving the quality of the tax system and strengthening the tax revenue mobilisation.

The reforms envisage a phased approach in designing and implementing reforms within the different tax instruments, commencing with tax policy reforms of profit tax, personal income tax and VAT.

The reform package in these three tax areas is based on comprehensive and in-depth analyses of the domestic legislation and tax revenue indicators, as well as on comparative analyses of the tax practices in the EU member states and other Western Balkan countries. It also builds on the findings and recommendations of international organisations such as the IMF, the World Bank, the OECD and the EU, which indicate the need for ensuring greater vertical and horizontal fairness of the tax system and expansion of the tax base through elimination of the tax expenditures.

The tax reform package, which was designed through a broad consultation process with diverse stakeholders in order to respect the principles of transparency and inclusiveness in the adoption of public policies, is primarily focused on consolidating and expanding the tax base through removal of unproductive preferential regimes, designing effective targeted investment incentives and strengthening the domestic anti-avoidance framework.

The IMF has provided valuable advisory and capacity building support in finalising the tax reform package, while the World Bank has assisted the process of simulation of fiscal implications of the various reform scenarios with the use of micro simulation tax models.

The legislative changes in these three tax segments (personal income tax ("**PIT**"), CIT and VAT) were approved by the Government in December 2022. The remaining legislative changes, namely the amendments to the law on corporate income tax and to the law on VAT, are expected to be adopted by the Parliament in early 2023.

2022 Supplementary Budget of the Republic of North Macedonia

The 2022 Supplementary Budget of the Republic had four main goals:

- revision of the initial fiscal projections in accordance with the changed macroeconomic context in the first half of 2022;
- incorporation of the fiscal response to the crisis;
- restructuring of budget expenditures; and
- optimising the sources of financing for the budget deficit.

Revenues

The total revenues in the 2022 Supplementary Budget of the Republic are expected to be MKD 245.8 billion, which is MKD 6.9 billion or 2.9% higher than the initial budget projections.

Of the total revenues, tax revenues, as source revenues of the Budget, contribute 58.3% and are expected to be MKD 143.2 billion, MKD 6.7 billion or 5% more than planned for the Budget for 2022.

The projected increase in tax revenues is primarily due to the increase of the tax base for certain types of taxes as a result of increased consumption, increase of the average salary, higher profitability of companies, improved collection of tax revenues due to the reduction of the shadow economy, strengthened tax control and simplification and digitalisation of tax procedures, and further realisation of the goals and priorities of the Strategy for tax system reform for the years 2021-2025.

With these projections of tax revenues for the 2022 Supplementary Budget, the share of the individual taxes of the total tax revenues is expected to be as follows: value added tax (47.8%); excises (18.8%); personal income tax (15.8%); profit tax (9.4%); import duties and tax on motor vehicles (6.2%); and other tax revenues and revenues on own accounts of budget users (2.0%).

Social contributions as source revenues of the Pension and Health Insurance Funds and the Employment Agency are expected to be MKD 78.6 billion or 5.7% higher compared to the revenues planned for the 2022 budget.

Expenditures

The total expenditures are expected to be MKD 288.5 billion, MKD 16 billion or 5.9% higher than the initial projections for 2022.

Based on the planned revenues and expenditures, the deficit is expected to be MKD 42.7 billion, or 5.1% of GDP.

Expenditures for payment of salaries are projected to be MKD 33.2 billion, which includes the effects of control of new employments, optimisation of the public administration, and harmonisation of salaries of employees with budget users of the minimum wage.

Expenditures for goods and services are predicted to be MKD 23.1 billion, intended for regular servicing of the obligations of budget users, which includes the effects of increased energy prices.

The current transfers are projected to be MKD 189.8 billion or MKD 19 billion higher than the initial plan for 2022, and are a result of the implementation of economic measures to support citizens and the economy, of which the most important are the following:

- additional financial support of MKD 4.7 billion for the protection of the standard of citizens and the liquidity of companies in conditions of prolonged crisis in the energy markets and primary products;
- additional subsidies and transfers for direct financial support in the agricultural sector, including the provision of an additional MKD 3.2 billion intended to support crop and animal production, in order to stimulate yields, increase productivity, greater competitiveness, and amortisation of price pressures on basic food products;
- increase of transfers to local self-governance units of MKD 0.8 billion as a result of the increase of block grants to the municipalities intended for increasing the salaries of the employees in kindergartens, as well as for employees in primary and secondary schools by 15% starting from September 2022;
- further increase in pensions by MKD 4 billion, as a result of the new methodology for calculating pensions, pursuant to which 50% of the adjustment of pensions is done according to the movement of the cost of living index and a 50% increase in the average salary of all employees; and
- MKD 2.4 billion in additional financial support for the beneficiaries of the right to guaranteed minimum assistance.

MKD 32.1 billion of capital expenditures are budgeted for 2023, which is MKD 6 billion lower than what was budgeted for capital expenditure for 2022.

Budget users with the planned funds for capital investments will be able to implement the planned reconstructions and modernisations in equipment in the public health institutions, capital investments in the field of education, child and social protection, road, railway and communal infrastructure, fulfilment of agreements in the field of defence and security, as well as increased amount of funds for rural development (hydro systems, water supply and sewerage systems and other water management infrastructure).

The projected deficit for 2022, for external debt is expected to be MKD 6.23 billion and for domestic debt is expected to be MKD 5.54 billion will be financed through borrowing on the international and domestic capital markets. Given the current economic and foreign policy situation, a greater focus is expected to be placed on financing from international markets in 2022. This commitment will enable more money from the domestic banking sector to be used in the economy of North Macedonia, and additionally, through external sources of financing, the foreign exchange reserves of the state will increase.

	Budget 2022	Revised Budget 2022	R2022-B2022	R2022/B2022
	(in millions MKD)			*(in %)*
Total revenues	238,900	245,758	6,859	2.9
Tax revenues and contributions	210,829	221,770	10,942	5.2
Tax revenues	136,458	143,173	6,715	4.9
Contributions	74,371	78,597	4,227	5.7
Non-tax revenue	19,171	17,043	(2,128)	(11.1)
Capital revenues	3,330	2,180	(1,150)	(34.5)
Donations	5,570	4,765	(805)	(14.5)
Total expenditures	272,428	288,494	16,066	5.9
Current expenditures	2334,192	256,385	22,193	9.5
Salaries and allowances	32,679	33,234	555	1.7
Goods and services	20,656	23,106	2,450	11.9
Transfers to Local government	22,321	23,150	829	3.7
Subsidies and transfers	23,967	33,749	9,782	40.8
Social transfers	124,497	132,924	8,427	6.8
Interest payments	10,071	10,221	150	1.5
Capital expenditures	38,236	32,109	(6,127)	(16.0)
Budget balance	(33,529)	(42,736)	(9,208)	—
Primary budget balance	(23,458)	(32,515)	(9,058)	—
Budget balance, % of GDP	—	—	—	—
Total revenues, % of GDP	31.0	30.6	—	—
Capital expenditures, % of GDP	4.9	4.0	—	—
Budget balance, % of GDP	(4.3)	(5.3)	—	—
Primary budget balance, % of GDP	(3.0)	(4.0)	—	—

Financing for the projected deficit for 2022, as well as debt repayments, are expected to be provided for through domestic and foreign borrowing in the approximate amounts of MKD 33.5 billion and MKD 11.6 billion respectively.

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 2021 was 2.7% 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 MKD 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.

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 European Commission (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*".

2018

Economic growth in 2018 increased by 2.9%, as a result of the positive contribution from domestic demand, with both consumption and investment registering an increase, whereas net exports weighed somewhat on economic growth, in spite of strong growth of both exports and imports. Exports of goods and service registered a strong increase of 12.8% 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 10.7% in real terms, driven by increased imports of intermediary goods. Consumption in 2018 grew by 3.3% in real terms, with private consumption increasing by 3.7% and public consumption increasing by 1.5%. Gross investments increased by 1.7% in real terms, fuelled by strong inflows of FDI. Industrial sector growth amounted to 5.3%, strongly underpinned by intensified growth of 6.2% in the manufacturing sector. The services sector grew by 2.7%, 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 8.3%, activity in the construction sector fell by 11.0% 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 2.7% of GDP in 2017.

2019

In 2019, economic growth increased to 3.9%, following growth of 2.9% in 2018, reflecting strong domestic demand, as investment activity increased significantly (representing 9.5% real growth), due to an increase in construction activity and investment in capital goods. Consumption remained robust, with private consumption registering an increase of 3.7%, underpinned by rising wages, employment and household lending, while public consumption grew by 2.5%. Exports of goods and services increased by 8.9%, coupled with a 10.1% increase in imports, indicating a negative contribution of net exports to growth. Analysed by sector, construction activity increased by 5.5%, reflecting positive developments in both building and civil engineering segment. The services sector continued its positive trend, with trade, transportation, accommodation and food services leading growth, with an aggregate 5.1% increase in activity. The contribution to GDP of the industrial and agriculture sectors was also positive, registering increases of 1.4% and 0.1%, 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 9.5%. 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 8.1% 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 87.8% 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 4.7% in 2020. During the second quarter of 2020, it dropped by 15.4% 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 4.3% during the third quarter and increased by 1.3% 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 4.2%. This was a caused by a decline in the trade, transportation and hospitality sector which experienced a 10.6% drop, partially offset by the favourable trends in the information and communication technology sector which grew by 4.5% in 2020. The industrial and construction sectors registered a decrease of 6.7% and 4.0%, respectively while the agriculture sector experienced a 2.5% growth. Private consumption decreased by 3.6% as remittances fell significantly, partially offset by strong public consumption (9.8% growth), reflecting increased expenditure to cope with the COVID-19 crisis. Gross investments dropped by 15.1%, 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 10.9%, 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 COVID-19 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 COVID-19 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 realised budget revenues fell by 7.0% 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 11.9% mostly as a result of increased health-related expenditure to manage the COVID-19 pandemic and fiscal measures aimed at supporting the economy. This led to the budget deficit widening to 8.0% of GDP for 2020.

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 harmonisation of economic policies with the EU and preparation of a three-year annually updated 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. The last ERP 2022-2024 was submitted to EC on 31 January 2022, according to EU Guidance Note and after prior approval by the government.

According to the Commission Assessment of ERP 2022-2024, progress was made in implementing the structural reform measures in its ERP 2021-2023, with an average score of 2.6 out of 5. According to the assessment, 26% of measures were at the stage where implementation is being prepared, initial steps had been taken in 16% of measures, implementation is still ongoing with some initial results having been achieved for 32% of measures, 5% of measures are in the advanced stage of implementation, and 11% fully implemented. The report noted partial implementation (43.1%) of the policy guidance adopted at the Economic and Financial Dialogue in 2021, with substantial implementation assessed at guidance referred to providing well-targeted and temporary pandemic-related fiscal support, as well as maintaining a strong financial sector regulatory framework in line with international and EU best practices.

The ERP 2022-2024 targeted three key challenges that need to be addressed for improving competitiveness and job creation: (i) strengthening the human capital for inclusive development, (ii) fostering the green transition and (iii) improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy. The programme contained measures related to solid waste and wastewater treatments for the first time, as per EU Guidance Note, noting the importance of green transition, along with existing measures on renewables and energy efficiency. To address the challenges for improving human capital, measures in educational labour market, social and health areas are included. For improving the business environment measures on digitisation, innovation, improving productivity and internal market rules are foreseen.

The ERP 2023-2025 was submitted to the EC on 1 February 2023.

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 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; (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.

In 2020, the Law on Strategic Investments was adopted to encourage strategic investments in the Republic, 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.

2021

In 2021, despite the impact of the COVID-19 pandemic, the economy recovered in line with expectations. Following the 0.1% growth in economic activity in the first quarter, economic activity increased by 14.5% in the second quarter, followed by a 1.4% increase in the third quarter and a 1.2% increase in the fourth quarter. This upward trend led to an average economic growth of 3.9% in 2021, which was a result of more favourable epidemiologic picture, improved mobility, government measures aimed at supporting the economy, a more favourable international environment and less consumption restraint. Economic growth in 2021 was mostly a result of the favourable trends in the services sector, where activity surged by 7.9%. Growth in the services sector was broad based, driven by real estate activities (8.3% growth), followed by the trade sector (4.3% growth) and information and communication activities (15.9% growth). The industrial production increased by 0.9%, whereas activity in the construction and agriculture sectors decreased by 5.5% and 5.2%, respectively.

According to analysis of GDP expenditure, economic activity growth in 2021 was a result of favourable domestic demand, amid recovered private consumption and investments, while net export had decreased the overall growth. Consumption increased by 6.4%, which was primarily driven by a 5% increase in private consumption. Consumption growth reflected the recovery of remittances, the solid wage growth, the state aid and the credit support. Public consumption decreased by 0.4%. Gross investments increased by 0.9%, as a result of the significant increase in the second and fourth quarter. Export of goods and services swiftly recovered during the first half of the year, continuing with a moderate pace in the second half, whereby export activity increased by 11.7% in real terms, amid recovery of foreign demand. Import of goods and services increased by 11.9% in real terms, driven mostly by the stronger import of intermediary goods.

Following the decline in the first quarter of 2021, the number of employed registered a mild increase in the second quarter, prior to reaching 1.4% and 0.7% growth in the third and fourth quarter, respectively, on an annual basis, according to Labour Force Survey data. In 2021, employment increased the most in the services sector, particularly in trade, information and communication and public sector. Employment dropped in the construction and agriculture sectors, while remaining nearly stagnant in the industrial sector. The average employment rate remained at 47.2% in 2021, which is the same as compared to 2020. During this period, the unemployment rate registered a downward trend, falling to 15.2% in the fourth quarter, a decrease of 90 basis points compared to the same quarter in the previous year.

Average net wage grew by 5.7% in nominal terms and by 2.3% in real terms. Wage growth was broad based, with wages in the services sector increasing by 6.7% and increasing by 4.6% in the industrial sector

The inflation rate was 3.2%, reflecting price pressures caused by factors specific to the COVID-19 pandemic crisis, which resulted in an upward trend in the commodity prices on the international market, and were transmitted to the domestic economy, mainly through rising prices of food and fuel.

During 2021, monetary policy remained accommodative. In March, the Central Bank policy rate was reduced to 1.25% and remained at the same level throughout the year. Credit activity increased by 8.3% in December 2021, amidst intensification of credits to enterprises, registering an increase of 8.3% and growth of credit to households of 7.8%. Total deposits increased by 7.8%, driven by foreign currency deposits.

The Government continued with targeted support in 2021, in order for economic activity to be restored amid the prolonged pandemic. These measures provided financial support for salaries of the most vulnerable categories, interest-free loans, financial support for liquidity, support for export activity, as well as support for the most affected sectors. The collection of budget revenues in 2021 increased by 15.0%, amid growth in all types of tax revenues and social contributions, while budget expenditures increased by 5.5%, implying narrowing of the budget deficit by 27.8%, (i.e. at the level of 5.4% of GDP). Within the expenditures, capital expenditures registered high growth of 45.3%, while current expenditures increased by 2.7%.

2022

Economic activity in the Republic in 2022 was influenced by challenges and uncertainties caused by global factors. In the first half of 2022, GDP recorded annual growth of 3.2%, with the growth rate moderately slowing to 2.0% on a real basis in the third quarter of 2022 and 0.6% in the fourth quarter of 2022 as a result of further deterioration in the international environment.

Economic growth in the first nine months of 2022 reached 2.7%. Economic growth in the first nine month 2022 was primarily the result of favourable trends in the services and the agriculture sectors, with a positive contribution to economic growth. Activity in the services sector grew by 5.7% as a result of the developments in trade, transport and hospitality industry, growing by 7.7%, with the strong post-pandemic recovery in this activity continuing. Growth was also registered at professional, scientific and technical activities, as well as real estate-related activities. The agriculture sector registered 3.2% growth in real terms during this period. The construction sector registered a 8.6% decline in real terms which was due to the unfavourable trends in both buildings and civil engineering structures. In the first nine months of 2022, activity in the industrial sector declined by 1.7% amid a 1.2% drop in manufacturing.

Manufacturing of food and beverages experienced significant decline amid increase of prices of commodities and raw materials and uncertainty in terms of their availability. Growth of economic activity in the first nine months of 2022 was entirely a result of the stronger domestic demand, amid increased consumption and scaled up gross investments, while the contribution of net export was negative. Gross investments picked up by 26.5% in the first nine months of 2022. High level of gross investments was largely due to the increase of inventories stemming from increased import of intermediary goods and raw materials, energy products, as well as the increased import of machinery and equipment, so as to mitigate the unfavourable effects from the war conflict on the availability and prices of these products, especially in the first half of 2022. Consumption picked up by 2.0% in real terms, with private consumption, supported by the growth of wages, remittances, as well as the solid credit activities, increasing by 3.1%, and public consumption decreased by 2.5% in real terms.

In the first half of 2022, the growth of economic activity was due to increased domestic demand, in conditions of increased consumption and gross investments, while the contribution of net exports was negative. Gross investments recorded an increase of 42.5%. The high level of gross investments was largely due to the growth of inventories, resulting from increased imports of intermediate products, raw materials and energy, as well as imports of machinery and equipment, to mitigate the adverse effects of the war in Ukraine on availability and prices of these products. Consumption recorded an increase on a real basis of 2.8%, within which private consumption (supported by the growth of wages, remittances and solid credit activity) grew by 4.4% and public consumption decreased by 3.5% on a real basis.

Export of goods and services grew by 14.5% in real terms during the first nine months of 2022, which was largely the result of the increased export of chemical products, iron and steel, as well as mineral oils and lubricants. Import of goods and services recorded grew by 20.1% in real terms, while net export had negative contribution to the economic growth. Stronger import was primarily the result of the import of intermediary goods, surging by 36.3% in the respective period. According to monthly data, in the first nine months of 2022 exports of goods increased by 20.1%, while the growth of imports reached 28.9%. The trade deficit in this period was higher by 53.4% compared to 2021, where 81.4% of the increase in the total trade deficit was due to the increased deficit in energy exchange (oil, natural gas and electricity) as a result of high prices on international markets.

In the third quarter of 2022, positive movements in the labour market continued, with the unemployment rate decreasing to 14.3% (from 14.5% in the first quarter), amid a quarterly decline in the number of unemployed of 1.7%. The employment rate was 47.3%, and the number of employees remained the same. In the period from January to September 2022, the average net salary recorded a nominal growth of 9.9%. During this period, the growth of the average salary was observed in all sectors, with the most pronounced in the hospitality industry, art and trade.

The inflation rate during 2022 has had an upward trend and in the first nine months it reached 12.4%, which reflects the price pressures on the supply side caused by global factors. After the accommodative monetary policy in the past two years, the National Bank has started a process of gradual normalisation, in conditions of accelerated price growth. In response to the rising inflation and the inflation expectations, the National Bank increased its policy rate seven times between April 2022 and November 2022, from 1.25% in the first quarter to 4.25% in November 2022, accompanied by changes in the mandatory reserve instrument.

In September 2022, credit activity accelerated by 9.9% on an annual basis, led by higher lending to enterprises (12.6% growth), whereby household lending grew by 7.6%. Total deposits were higher by 3.4% compared to the same period in 2021, reflecting growth in household deposits by 5.3%, while corporate deposits decreased by 2.6%.

In the first nine months of 2022, budget revenues grew by 13.2% compared to the same period in 2021, whereby tax revenues picked up by 16%, and social contributions increased by 8.9%. Higher tax revenues were driven by PIT, VAT, profit tax, other tax revenues and import duties. Budget expenditures grew by 5.9% as compared to the same period in 2021. Current expenditures increased by 7.7%, while capital expenditures recorded lower execution by 14.1%.

Measures to protect citizens against increased energy and oil prices

To reduce the negative consequences of the energy crisis, from July 2021 to June 2022 the supply of electricity to households was taxed at a preferential rate of value added tax of 5% (reduced from 18%). From 1 June 2022 to 30 June 2023, the supply of electricity to households will be taxed at a preferential rate of value added tax of 10%. The cost implications of these reduced rates in 2021 were €17 million.

Financial support for energy for the certain categories of the population (households and beneficiaries of social pension) included:

- A total of MKD 256 million provided for energy poverty (households and beneficiaries of social pension);

- The widening of the base of included households to include a further 6,000 units (1,000 MKD per household). As such, a total of 250.7 million of MKD support was provided to 41,716 households in the first six months of 2022; and
- MKD 58.6 million of funds provided to the beneficiaries of the social pension;

Continuation of the energy allowances measure are planned for recipients of social assistance and low pensioners (36,246 recipients of social assistance and 147,000 pensioners) for four months. The total effect for social assistance recipients is MKD 437 million and the total effect for pensioners is MKD 632 million.

Economic Policy

Government economic policy is focused on fulfiling 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 enterprises of North Macedonia 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.

Furthermore, the Republic's score on the OECD's FDI Regulatory Restrictiveness Index (the "**FDI Index**") in 2020 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	0.015
Croatia	0.034
Greece	0.032
Serbia	0.050
Montenegro	0.024

Source: OECD

The Republic's score on the World Bank's Regulatory Quality Index rank also compares favourably to its peers. The Regulatory Quality Index measures perceptions of the ability of the respective country's government to formulate and implement policies and law that permit and promote private sector development. The index is scored on a scale from -2.5 (weak regulatory quality) to 2.5 (strong regulatory quality).

Country	Rank
North Macedonia	60
Albania	73
Romania	66
Bulgaria	57
Greece	58
Serbia	86
Montenegro	59

Economic developments and trends

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

	Year ended 31 December							Nine months ended 30 September
	2015	2016	2017	2018	2019	2020	2021	2022(1)
Real GDP growth (%)	3.9	2.8	1.1	2.9	3.9	(4.7)	3.9	2.7
Inflation (CPI)	(0.3)	(0.2)	1.4	1.5	0.8	1.2	3.2	12.4
Budget deficit (% of GDP)	3.5	2.7	2.7	1.8	2.0	8.0	5.4	1.9
Change in budget deficit (%)(2)	(12.2)	(17.4)	5.2	(31.5)	17.8	295.2	27.8	(38.4)
Central Bank bills interest rate (%)(3)	3.3	3.7	3.3	2.9	2.3	1.6	1.3	1.9
Unemployment (%)(4)	26.1	23.7	22.4	20.7	17.3	16.4	15.7	14.5
Change in the number of unemployed persons (%)(5)	(7.4)	(9.6)	(5.1)	(7.0)	(16.2)	(6.3)	(5.2)	

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

Notes:

(1) Preliminary.

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

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

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

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

Energy Poverty Programme

The Ministry of Economy's programme to protect vulnerable categories of consumers made available a total of MKD 60 million for 2022. The financial support was made available in the form of monthly payments in the amount of MKD 600 for households of one to three members, and MKD 800 for households of four or more. In 2021, MKD 8 million were provided to vulnerable consumers administered through the energy distribution system operator. MKD 200 million was provided for in the Ministry of Economy's 2021 budget for these measures.

An additional programme was adopted in December 2022 to assist vulnerable energy consumers during 2023. A total of MKD 60 million was made available for the programme and citizens will apply for the programme in order to receive financial support.

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						Year ended 31 December	Nine months ended 30 September
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021(1)**	**2022(2)**
GDP at current prices (MKD millions)	558,954	594,795	618,106	660,878	692,683	669,280	720,414	563,104
GDP at current prices (€ millions)	9,072	9,657	10,038	10,744	11,262	10,852	11,690	9,138
Real GDP growth (%)	3.9	2.8	1.1	2.9	3.9	(4.7)	3.9	2.7
GDP per capita (€)	4,382	4,659	4,839	5,175	5,423	5,236	6,365	—

Notes:

(1) Preliminary.

(2) Estimated.

Source: State Statistical Office.

The average real GDP growth rate of North Macedonia from 2014 to 2021 was 2.2%, 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 2020.

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Average**
Albania	1.8	2.2	3.3	3.8	4.0	2.1	-3.5	8.5	**2.8**
Bosnia and Herzegovina	1.1	3.1	3.1	3.2	3.7	2.8	-3.1	7.5	**2.7**
Bulgaria	1.0	3.4	3.0	2.8	2.7	4.0	-4.4	4.2	**2.1**
Croatia	-0.3	2.5	3.5	3.4	2.9	3.5	-8.1	10.3	**2.2**
Greece	0.5	-0.2	-0.5	1.1	1.7	1.8	-9.0	8.3	**0.5**
Serbia	-1.6	1.8	3.3	2.1	4.5	4.3	-0.9	7.4	**2.6**
Slovenia	2.8	2.2	3.2	4.8	4.5	3.5	-4.3	8.2	**3.1**

Source: International Monetary Fund, World Economic Outlook Database, October 2022

The following table sets forth the contribution to real GDP growth by type of consumption:

	Year ended 31 December						Nine months ended 30 September
	2016	2017	2018	2019	2020	2021	2022
	(%)						
Household consumption	2.7	1.4	2.5	2.5	(2.3)	5.3	2.1
Government consumption	(0.8)	(0.4)	0.2	0.4	1.4	(0.1)	(0.4)
Gross capital formation	3.8	(0.7)	0.5	3.1	(5.2)	0.3	7.7
Net-export	(2.8)	0.8	(0.3)	(2.0)	1.5	(1.6)	(6.4)

GDP by sector

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

	Year ended 31 December						Year ended 31 December	Nine months ended 30 September
	2015	2016	2017	2018	2019	2020	2021[(2)]	2022[(3)]
	(MKD millions)							
Agriculture	54,369	54,559	48,664	55,979	56,331	57,351	52,225	46,114
Industry	94,027	101,425	109,870	123,187	125,196	116,703	121,890	97,078
Construction	39,687	41,106	40,076	35,757	38,994	35,514	39,157	29,233
Trade, transportation and storage, accommodation and food service activities	102,856	113,050	122,945	131,737	140,322	130,471	138,894	125,380
Information and communication	16,478	18,165	20,974	22,612	24,365	26,732	31,249	24,399
Financial and insurance activities	17,045	17,582	19,313	19,276	19,293	20,636	21,978	16,884
Real estate activities	61,518	59,635	59,432	66,152	68,258	69,940	75,298	62,267
Professional, scientific, technical and administrative activities	18,012	20,082	22,054	23,822	26,298	24,251	28,459	23,796
Public sector[(1)]	69,360	73,676	74,933	76,943	82,218	88,928	93,220	72,114
Arts, entertainment, recreation and other service activities	15,054	16,320	17,463	18,458	20,187	17,555	20,487	16,989
Value added	488,408	515,601	535,726	573,922	601,462	588,081	622,858	514,255
Net taxes on products	70,546	79,194	82,379	86,956	91,220	81,199	97,556	48,849
GDP	558,954	594,795	618,106	660,878	692,683	669,280	720,414	563,104

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 55.7% during the period from 2015 to 30 September 2022. The share of services in GDP was 60.7% for the first nine months of 2022. The share of agriculture in GDP during the period from 2015 to 30 September 2022 was 8.4% on average. The share of agriculture in GDP was 8.2% for the first nine months of 2022. The share of industry in GDP during the period from 2015 to 30 September 2022 was 17.5% on average. This share of industry in GDP decreased slightly to 17.2% for the first nine months of 2022. The share of the construction sector in GDP during the period from 2015 to 30 September 2022 was 5.9% on average. This share of the construction sector in GDP was 5.2% for the first nine months of 2022. 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							Nine months ended 30 September
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021[1]**	**2022[2]**
				(%)				
Final consumption, of which	85.8	82.3	81.6	80.1	79.5	82.8	83.7	87.6
Household final consumption	68.8	66.9	66.7	65.9	65.5	66.0	67.7	71.5
General government final consumption	17.0	15.4	14.9	14.3	14.0	16.7	16.0	16.1
Gross capital formation	30.4	32.5	32.3	32.3	34.3	29.9	32.3	33.9
Export of goods and services	48.7	50.7	55.1	60.4	62.4	57.8	66.2	77.8
Import of goods and services	65.0	65.5	69.0	72.8	76.2	70.5	82.3	99.3
Net export	(16.3)	(14.8)	(13.9)	(12.4)	(13.8)	(12.7)	(16.1)	(21.6)
GDP	100.0	100.0	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 79.5% at 31 December 2019 to 87.6% at 30 September 2022. Household consumption, as the largest component of final consumption, has followed a similar trend with a share of 65.5% at 31 December 2019 which increased to 67.1% at 31 December 2022.

Gross capital formation constituted 34.3% of GDP in 2019 and 33.9% of GDP for the first nine months of 2022 reflecting recovery in post pandemic period (29.9% in 2020). The exports of goods and services and imports of goods and services had seen steady increases from 48.7% in 2015 to 66.2% in 2021 for the export component and from 65.0% in 2015 to 82.3% in 2021 for the import component. During 2020, the share of the export of goods and services in GDP decreased from 62.4% to 57.8%. The share of the import of goods and services in GDP during 2020 decreased from 76.2% to 70.5%. This decrease reflects the impact of the COVID-19 pandemic on international trade and exports. In the first nine months of 2022 the shares of the external sector further increased to 77.8% for export component and 99.3% for import component.

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							Nine months ended 30 September
	2015	2016	2017	2018	2019	2020	2021	2022
	(%)							
Consumer price inflation....	(0.3)	(0.2)	1.4	1.5	0.8	1.2	3.2	12.4

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. Inflation rate in 2021 was 3.2%, reflecting price pressures caused by factors specific to the COVID-19 pandemic, which resulted in an upward trend in the commodity prices on the international market, and were transmitted to the domestic economy, mainly through rising prices of food and fuel.

The inflation rate during 2022 had an upward trend and in the first nine months of 2022 reached 12.4%. This reflects the price pressures on the supply side caused by global factors, which resulted in an upward trend in the prices of primary products on the international market, and were transferred to the domestic economy, mainly through increased prices of food products (by 18.5%), oil derivatives (by 36.4%) and electricity (by 13.0%) during the same period.

The following table sets forth the CPI contributions by month for 2021 and 2022 in North Macedonia:

	CPI	Food	Transport	Other
January 2021	1.9	0.9	(0.4)	1.4
February 2021	1.9	0.8	(0.3)	1.4
March 2021	2.1	0.7	0.1	1.3
April 2021	2.7	0.6	0.6	1.5

	CPI	Food	Transport	Other
May 2021	3.0	0.8	0.6	1.6
June 2021	2.7	0.4	0.6	1.7
July 2021	3.4	0.9	0.9	1.7
August 2021	3.6	1.6	0.9	1.1
September 2021	3.7	1.6	1.0	1.1
October 2021	4.1	1.8	1.1	1.1
November 2021	4.8	2.3	1.2	1.3
December 2021	4.9	2.7	1.0	1.1
January 2022	6.7	3.7	1.0	2.0
February 2022	7.6	3.8	1.2	2.6
March 2022	8.8	4.6	1.3	3.0
April 2022	10.5	4.6	1.4	3.1
May 2022	11.9	6.9	1.6	3.5
June 2022	14.5	8.4	2.1	3.9
July 2022	16.0	9.4	1.7	4.9
August 2022	16.8	10.1	1.3	5.4
September 2022	18.7	11.5	1.0	6.2
October 2022	19.8	12.6	1.0	6.2

Key components of the economy

Industry

Historically, the traditional industrial sectors in the economy of North Macedonia have been steel and iron, textiles and clothing, food processing and tobacco. In recent years, a diversification has taken place to move towards more value-added industrial sectors such as ICT, automotive components and the chemical industry.

The average capacity utilisation level of business entities in December 2021 decreased to 68.8% in comparison to 69.2% in December 2020. The factors that had the greatest influence on limiting the production volume in December 2021 were insufficient foreign demand, uncertainty of the economic environment, shortage of skilled labour and insufficient domestic demand.

The average capacity utilisation level of business entities in September 2022 was 66.1% of normal utilisation. The factors that had the greatest influence on limiting the production volume in September 2022 were: shortage of skilled labour (21.2%), insufficient foreign demand (16.8%), uncertainty of economic environment (16.4%) and insufficient domestic demand (11.9%).

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

	Year ended 31 December						
	2019	2020	2019	2020	2019	2020	
	(€ 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

The table below indicates the traditional industrial sector trade gap for the years ended 31 December 2020 and 2021:

	Year ended 31 December						
	2020	2021	2020	2021	2020	2021	
	Export		Import		Trade gap		Change trade gap
	(€ million, unless indicated otherwise)						
Steel and iron	556.1	776.6	362.3	542.8	193.8	233.8	40
Textiles and Clothing, total	468.4	449.5	483	515.3	(14.6)	(65.8)	(51.2)
Textiles	107.1	107.2	393	398.9	(285.9)	(291.7))	(5.8)
Clothing	361.3	342.3	90	116.4	271.3	225.9	(45.4)
Food and Tobacco, total	488.3	517.6	692	776.7	(203.7)	(259.1)	(55.4)
Food products	363.2	389.5	664.5	745.4	(301.3)	(355.9)	(54.6)
Tobacco and tobacco manufactures...........	125.1	128.1	27.5	31.3	97.6	96.8	(0.8)

Source: State Statistical Office

The table below indicates the traditional industrial sector trade gap for the first nine months of 2021 and 2022:

	Nine months ended 30 September						
	2021	2022	2021	2022	2021	2022	Change trade gap
	Export		Import		Trade gap		
	(€ million, unless indicated otherwise)						
Steel and iron................	557.8	643.8	389.2	515.9	168.6	127.9	(40.7)
Textiles and Clothing, total..............................	330.4	410.5	364.1	460.8	(33.7)	(50.3)	(16.6)
Textiles........................	80.6	109.2	284.7	352.2	(204.1)	(243)	(38.9)
Clothing.......................	249.8	301.3	79.4	108.6	170.4	192.7	22.3
Food and Tobacco, total	386.8	433.7	552.1	671.4	(165.3)	(237.7)	(72.4)
Food products..............	285.3	329.5	526.9	642.4	(241.6)	(312.9)	(71.3)
Tobacco and tobacco manufactures................	101.5	104.2	25.2	29.0	76.3	75.2	(1.1)

Source: State Statistical Office

In November 2022, the principal components of industrial production were manufacturing (81.6%), mining and quarrying (10.0%) and electricity, gas, steam, and air conditioning supply (8.4%). The largest components of manufacturing were: food and beverage (14.0%), motor vehicles and semi-trailers (8.0%), textiles and clothing (12.6%) and machinery and other equipment (6.8%). The remainder (39.8%) consisted of miscellaneous manufactured goods.

In December 2021, the principal components of industrial production were manufacturing (79.1%), mining and quarrying (10.9%) and electricity, gas, steam, and air conditioning supply (10.1%). The largest components of manufacturing were food and beverage (14.3%), motor vehicles and semi-trailers (11.6%), textiles and clothing (12.4%) and machinery and equipment n.e.c. (6.2%). 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 n.e.c. (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	2021
Industrial output (index)......................	103.4	100.2	105.4	103.7	90.5	101.4

Source: State Statistical Office

The industrial output for the first nine months of 2022 was 100.9 (as compared to 102.9 in the same period of 2021).

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%.

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 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.

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.

In 2021, industrial production increased by 1.4% compared to 2020. The production of non-durable consumer goods represented the largest share (33.2%) of total industrial output while durable consumer goods accounted for the smallest share (2.08%). Industrial production increased in the following sub-sectors: energy, durable consumer goods, and intermediate goods of 2.6%, 24.4%, and 7.4%, respectively, and decreased in capital goods of 6.3% and non-durable consumer goods of 0.9%.

Industrial production related to mining and quarrying increased by 2.4% in 2021 as compared to 2020, while the manufacturing sector and the electricity, gas, steam, and air conditioning supply sectors recorded an increase of 1.2% and 2.1%, respectively. Industrial production of beverages, manufacturing of non-metallic mineral products, machinery and equipment, electrical equipment, furniture, rubber, and plastic products increased by 5.4%, 12.6%, 6.4%, 26.3%, 21.3% and 28.4% respectively.

The economy of North Macedonia's recovery in 2021 is in line with other European countries. In the first nine months of 2021, economic activity increased by 4.6%, with the highest growth rate of 13.4% being recorded in the second quarter. The recovery has been most pronounced in the service sector, while the changes in the industrial and construction sectors are still unfavourable.

According to preliminary State Statistical Office data, the total value of exported goods from the Republic in 2021 amounted to €6.9 billion, representing a 19.8% increase compared to the prior year, while the value of imported goods in the same period amounted to €9.6 billion, or 26.9% more than in the prior year. The trade deficit in 2019 was €2.7 billion. Import coverage by export in 2019 was 71.8%. According to total external trade volumes in 2021, the most important trading partners of the Republic were Germany, the UK, Greece, and China.

The increase in the deficit was due to the increase in the exchange of fuels and lubricants, industrial procurement, consumer goods, food and beverages and investment goods and the reduction of the positive balance in the exchange of transport equipment amongst the Republic's trading partners.

In the first nine months of 2022, industrial production increased by 0.9% compared to the first nine months of 2021. The production of non-durable consumer goods represented the largest share (35.12%) of total industrial output while durable consumer goods accounted for the smallest share (4.33%). Industrial production increased in the following sub-sectors: energy, capital goods, durable consumer goods, mining, and quarrying and Electricity, gas, steam and air conditioning supply decreased by 10.0%, 6.9%, 21.5%, 2.1% and 7.8%, respectively. Intermediate goods also decreased by 4.9% and non-durable consumer goods decreased by 1.0%. The manufacturing sector remained the same as compared to the same period in 2021.

Industrial production of wearing apparel, leather and related products, wood and products of wood and cork (except furniture, paper, and paper products), basic pharmaceutical product and pharmaceutical preparations, rubber and plastic products, other non-metallic mineral products electrical equipment, machinery and equipment, motor vehicles, trailers and semi-trailers, other transport equipment, furniture, and other manufacturing increased by 6.0%, 16.8%, 33.3%, 8.9%, 15.9%, 5.3%, 1.9%, 9.0%, 5.6%, 10.6%, 1.5%, 5.1%, and 11.2%, respectively.

Industrial production of food products, beverages, tobacco, textiles, printing and reproduction, chemicals, basic metals, fabricated metals, computer, electronics, and optical products decreased by 8.2%, 6.8%, 28.1%, 0.7%, 10.2%, 1.0%, 20.0%, 17.1% and 17.6%, respectively.

The total value of exported goods from the Republic in the first nine months of 2022 amounted to €6.2 billion, representing a 20.1% increase compared to the first nine months of 2021, while the value of imported goods in the same period amounted to €9.0 billion, or 28.9% more than in the first nine months of 2021. The trade deficit is €2.8 billion and the import coverage by export was 68.4%. According to total external trade volumes in the first nine months of 2022, the most important trading partners of the Republic were Germany, UK, Greece, Serbia, Bulgaria and China.

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 2021, the TIDZs attracted 34 companies in total, including large multinationals in the automotive, electronics, machinery and equipment manufacturing sectors that have invested approximately €200 million in production facilities in North Macedonia. The TIDZs have created over 14,200 jobs and manufacture over 46% 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.

According to data in the annual report of the Energy Regulatory Commission, in 2021 approximately 51% of the total consumer electricity was provided in the open electricity market in North Macedonia. Over the medium-term 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

In order to increase the energy storage and system flexibility, among top priorities is the construction of the pumped-storage hydro power plant, Chebren.

The following activities have been implemented for the realisation of this project:

- The Government adopted the Decision on initiating a procedure for granting a concession for the use of water for electricity production from hydropower plants on Crna Reka. 18 December 2020 was the deadline for submission of documents for participation in Phase 1;
- The opening of the received applications for participation in the pre-qualification procedure took place on 23 December 2020. According to the evaluation of the valid applications, the Commission prepared a list of companies that meet the pre-qualification requirements, for which they were informed in January 2021; and
- To implement the second phase of the procedure, the Government concluded an agreement for preparation of tender documentation and legal support. On 30 December 2021, the Government accepted the tender documentation for Phase II. In January 2022, all qualified companies were informed of the conditions for collecting the tender documentation. The deadline for submission of bids was 7 September 2022. The evaluation process of the submitted bids is ongoing.

Wind Park Bogdanci: Wind Park Bogdanci is run by the state-owned electricity generation company AD ESM – Skopje. The second phase of this project aims to extend the capacity of the existing Wind Park Bogdanci for an additional installed capacity of wind power of 13.2 up to 15 MW. With the completion of the second phase, the project will be complete. The total planned investment of the Wind Park Bogdanci – Phase II was assessed at €21 million, based on the market conditions at the time of the loan agreement, of which €18 million loan financing by the KfW Development Bank and €3 million contribution by AD ESM – Skopje were provided. However, the increase in material prices in the global markets, in particular for steel, copper and transportation costs has significantly affected the planned project budget. In total, the originally estimated budget of €21 million has increased to €30 million.

Wind Park Miravci: AD ESM – Skopje is in its development plans for the next period and includes the construction of Wind Park Miravci, which would consist of wind turbines with minimal nominal capacity of 5 MW. The project is currently in an ongoing tendering procedure for feasibility study including Environmental and Social Impact Assessment Study under KfW Financial Contribution (grant), under the Financing Agreement signed on 15 February 2021 between KfW, Frankfurt am Main ("**KfW**") and AD Elektrani na Severna Makedonija (AD ESM – Skopje). The financial model of this project is not yet defined by the Government, whether it will be a public-private partnership ("**PPP**") project or an engineering, procurement and construction ("**EPC**") project.

On 26 February 2021, AD ESM – Skopje submitted WBIF Grant Application Forms for investment grants for the Supply and Installation of 10 MW Solar PV Plant in Oslomej – Oslomej I Project and the Development and Construction of 10 MW solar PV plant in Oslomej (PVPP Oslomej II) and 20 MW solar PV plant in Bitola (PVPP Bitola I) Project. The official Notification of Grant Selection by the European Commission was provided on 17 July 2022 and stated that the two aforementioned applications were approved under Investment Round 6 on 1 April 2022. The first approved grant application is for the Oslomej 2 and Bitola Solar Photovoltaic Power

Plants Project, with a total WBIF grant amount of €5,161,408.16 and the second approved grant application is for the Oslomej 1 Solar Photovoltaic Power Plant Project, with a total WBIF grant amount of €1,595,109.31. Once operational, PVPP Oslomej 1 is expected to produce nearly 15 GWh a year of electricity and displace 13,000 tons of CO_2 annually. PVPP Oslomej 2 is expected to provide for annual electricity generation of approximately 16 GWh and the PVPP Bitola 1, an annual electricity generation of approximately 34 GWh.

The WBIF grant will be used to finance 20% of the Wind Park Miravci's supply and installation costs. The co-financing of this project by WBIF grant, will improve the feasibility and AD ESM – Skopje will continue this trend for investing in renewable energy projects.

Within the Energy Transition Programme, AD ESM – Skopje, the Government sent an official letter to the KfW Development Bank with a request for financial support for preparation and development of the following projects:

- Photovoltaic power plants in Bitola 2 & 3 with installed capacity of 60 MW and 100 MW
- Wind Park Miravci

KfW supported AD ESM – Skopje by providing a €2,400,000 grant to develop these projects. The financing agreement between the KfW, Frankfurt am Main and AD ESM – Skopje was signed on 15 February 2021. The expert services are financed by a special fund, provided by the Federal German Government. The grant will be used for preparation of the Renewable Energy Programme.

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
2021	5,350	2,584	—	7,935

Source: Electricity Balances and Annual Reports of the ERC.

North Macedonia has a total installed power generation capacity of 3,219 MW, of which 1,034.0 MW comes from thermal power generation, 716.7 MW are from hydro power plants, 287.0 MW are combined heat and power from natural gas, 36.8 MW are from wind plants, 126.6 MW are from photovoltaics, 7.0 MW are from biogas and 0.6 MW are from biomass. Coal-fired thermal power plant generation capacity accounts for approximately 800.0 MW. Coal used in thermal power plant operation is primarily obtained domestically and is a low-calorie lignite grade. Besides the domestic coal, additionally imported coal with higher calorific value was used in the previous years. A fuel oil thermal power plant provides a further 210.0 MW of installed capacity. In 2022, the total installed capacity increased by 88 MW compared to 2021.

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 dispatching 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 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 licence to MEMO DOOEL Skopje to organise and manage the electricity market, beginning in October 2019. In November 2022, this licence was amended by ERC stating that MEMO DOOEL was assigned as operator of the organised electricity market due to its fulfilment of all obligations.

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 licence 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 private owned land. The total installed capacity of photovoltaic plants for which a premium is awarded is 27 MW. The contracts in relation to these photovoltaic power plants were signed in May 2020.

In August 2021, 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 private owned land for total installed capacity of 80 MW. The electronic auction took place in February 2022 and during March 2022 and contracts in relation to these photovoltaic power plants were signed in April 2022. As of September 2022, 16 PV plants have been put into operation, with a total installed capacity of 31 MW, both on private and state owned land.

The Parliament adopted a Law amending the Energy Law (*"Official Gazette of the Republic of North Macedonia" No. 236/22*) on 7 November 2022. With these amendments, the Energy Law has been partially harmonised with the corresponding regulations of the European Union.

The Republic, as a Contracting party of the Energy Community, is required to develop an integrated National Energy and Climate Plan ("**NECP**"). The NECP covers the period from 2021 to 2030, laying the pathway to achieve the agreed 2030 targets, built upon what each contracting party should deliver in relation to their policies for 2020 (as a baseline), and includes a perspective until 2040 in order to ensure consistency with long-term relevant policy objectives at EU, United Nations Framework Convention on Climate Change and Energy Community level. The NECP takes a holistic approach and addresses the five main dimensions of the Energy Union in an integrated way. The NECP was adopted by the Government in May 2022.

The energy policy of the Republic 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 will be revised in light of the COVID-19 pandemic and the energy crisis, caused by the Russian invasion in Ukraine. In February 2020, the Government 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 markets of North Macedonia.

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 Energy Law adopted in 2018, each consumer has the right to engage its own electricity supplier through the market. In the Republic in 2021, approximately 51% of the total consumed electricity was provided in the open electricity market. As of November 2022, there are 43 licenced electricity suppliers and 65 licenced electricity traders, of which 15 are active electricity suppliers in the liberalised electricity market in 2022 and one is an active electricity supplier in the regulated electricity market, while there are 20 active electricity traders in the wholesale electricity market.

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.

All three scenarios in the Energy Development Strategy are expected to result in steep growth of electricity generated from RES (approximately 7 times more in 2040 compared to 2017). Hydro will maintain its largest share in electricity generation, but PV and wind will be the fastest growing technology. The strategy does not consider hydro projects in protected areas. Additional capacities of 92.5 MW of small hydropower plants will be built by 2040 (including those that are under construction or have the status of a temporary preferential producer).

In 2022, there was an interest in construction of photovoltaic power plants. The ERC issued licences for production of electricity for PVs with a total installed capacity of 86 MW, which is almost three times the amount of capacity in 2021, which was 28.6 MW. There are feed-in tariff for PVs and some of the PVs that were on the preferential regimes decided to go on the free market, thus the installed capacity for preferential PVs in 2022 decreased to 12.4 MW from 16.7MW.

Oil and natural gas

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

	2016	2017	2018	2019	2020	2021
			(kilo-tonnes)			
Oil	1,087	1,037	996	1,084	1,000	1,088
Gas	176	226	209	244	279	354

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 an approximately 120-kilometre gas pipeline system extending from the Bulgarian border to Skopje, Kumanovo and Kriva Palanka with a total capacity of 800 million cubic metres. Currently, this pipeline has a utilisation of approximately 53%. 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 meter. 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. Currently, the Republic is importing 100% of its natural gas from Russia.

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**") and liquified natural gas ("**LNG**") terminals.

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. This construction began in 2016 and is expected to be completed in the second quarter of 2023. The second phase of construction of the national gas transmission system 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 with the TAP, Ionian-Adriatic Pipeline, 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 gas system of North Macedonia and the Greek gas system feasibility study and cost benefit analysis for was completed in 2019 at a cost of €54 million. A financing agreement for a loan with investment grant (20% from WBIF) between EIB and the National Energy Resources Joint Stock Company was signed in December 2021, securing 50% financing for the North Macedonia section of the Gas Interconnector with Greece. The other part of financing is expected to be secured from EBRD in the first quarter of 2023.

The Market Test finished in Greece in September and a final investment decision is expected after the evaluation of Greek ERC. The tender for Supervision of the Construction was published in November 2022 and the tender for the Construction is intended to be published by the first quarter of 2023.

In June 2019, a technical assistance grant from the WBIF ("**West Balkan Investment Framework**") mechanism for the preparation of a feasibility study for the PECI Project interconnection between the North Macedonia gas system and Kosovo was approved. Preparation of Feasibility Study and Environmental Impact Assessment Study ("**EIAS**") scope was finalised in December 2022.

A grant application form for investment grants was submitted through WBIF (Flagship 5 - Transition from coal) for the project interconnection between North Macedonia and Serbia. The WBIF approval date for this project was 22 June 2021. The total WBIF grant amount for technical assistance of this project is €950,000. The main purpose of the construction of this main gas pipeline section is to achieve higher level of overall functionality of the energy system and provide conditions for greater infrastructure and economic integration with the neighbouring and remaining European countries. The project is in line with the EU directives for gasification of the country and it enables natural gas transit to and from the neighbouring countries. A Memorandum of Understanding in the field of mining and energy was also agreed and signed by the governments of both states in 2022.

In February 2020, the Government announced that tenders for a contract for a 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 which is the final phase. The whole process of the Competitive Dialog is envisaged to be finished by the second quarter of 2023.

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 financing is expected to be approved by EBRD in first quarter of 2023. 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*".

The gas transmission system operators of Bulgaria and North Macedonia in October 2022 signed an interconnection agreement between Bulgartransgaz and GA-MA, which will enable North Macedonia to diversify its sources of gas supply via the link between the two countries' gas grids at the existing Kyustendil - Zidilovo point. As result of this agreement, there is increased interest by traders and suppliers of natural gas and several requests for approval of licences have been submitted to ERC.

North Macedonia's highest consumption of natural gas is during the winter period, predominantly used for the generation of heating. Due to the geo-political events in Ukraine, the largest impact on the consumption of natural gas is the co-generation plant owned by TE-TO AD Skopje and the TPP that delivers heating energy to consumers in the city of Skopje. Nonetheless, the heating plants in the city of Skopje have the ability to use alternative fuel (fuel oil mazut). This also applies to industrial consumers that are connected to the network in Skopje. In the event of disruption to the supply of natural gas, there is no serious risk posed to North Macedonia, however there may be an increase in the price of fuel and fuel derivatives.

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 12.45% of total industrial production in the first nine months of 2022 and 6.7% of total export in the first nine months of 2022 (which comprised of 1.8% textiles and 4.9% apparel).

During the first nine months of 2022, industrial production volume indices for textile manufacturing (which accounted for 5.6% of total industrial production) decreased by 0.7%, and manufacturing of wearing apparel (which accounted for 6.8% of total industrial products) increased by 6.0% compared to the first nine months of 2021.

Manufacturing of textiles and clothing accounted for 12.4% of total industrial production in 2021 and 7.1% of total export in 2021 (which comprised of 1.6% textiles and 5.2% apparel).

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 11.3% and manufacturing of wearing apparel (which accounted for 7.5% of total industrial products) decreased by 13.9% compared to 2019.

Metals and Mining

Basic metals manufacturing accounted 5.16% and mining and quarrying accounted 10.02% of total industrial production in nine months of 2022. During the first nine months of 2022, the basic metals manufacturing decreased by 20% compared with the same period of 2021. This decrease was due to a partial stoppage of the operations of copper and gold mines of Borov Dol and Buchim that resulted from the current energy crisis.

In the first nine months of 2022, the manufacturing of basic metals comprised 10.6% of total export and 18.6% of total import, while metal ores comprised 3.9% of total export and 1.2% of total import. In the first nine months of 2022, the Republic imported basic metals from Ukraine in total value of €45.4 million, representing 2.7% of total import of basic metals, or 0.5% of total import.

Basic metals manufacturing accounted for 3.9%, 4.3% and 4.6% of total industrial production in 2019, 2020 and 2021 respectively, and mining and quarrying accounted for 10.7%, 11.24% and 10.9% of total industrial production in 2019, 2020 and 2021, 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 2021, the manufacturing of basic metals comprised 11.5% of total export and 19.7% of total import, while metal ores comprised 4.1% of total export and 1.6% total import. In 2021, the Republic imported basic metals from Russia and Ukraine in total value of €134 million, representing 7% of total import of basic metals, or 1.4% of total import.

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 2019, the manufacturing of basic metals comprised 9.2% of total exports and 20.3% of total imports, while metal ores comprised 3.7% of total exports and 1.9% of total imports.

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) and (ii) the Luke-Toranica mine near Kriva Palanka (lead, zinc, copper, gold and silver – Concessioner Ri-Energetika Skopje). 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. The Borov Dol mine near Radovish which is a copper mine has been operational since 2021.

Agriculture

Agricultural exports and imports accounted for 9.1% and 9.8%, respectively, of overall exports and imports of the Republic in 2021. In the two-year period between 2020 and 2021, the agricultural and food exports of North Macedonia, primarily comprising tobacco, fresh and processed fruits, vegetables, biscuits and waffles and wine, recorded a 6.1% increase, from €591.7 million in 2020 to €628 million in 2021, a trend that is expected to increase. In the same period, imports increased by 14.8%, from €822.6 million in 2020 to €944.1 million in 2021. The Republic's most important trade partner is the EU. In 2021, the total value of agricultural trade with the EU amounted to €765.5 million, of which €317.6 million related to exports, or 50.6% of total agricultural exports, and €447.9 million related to imports, or 47.4% of total agricultural imports. CEFTA countries (Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia and Kosovo) are the second most important trade partners and accounted for 32.5% of total agriculture exports and 30.6% of total agriculture imports in 2021, with a total trade value of €492.7 million. Of the CEFTA countries, Serbia accounted for the largest portion of trade with 11.4% and 24.5% of total exports and imports, respectively.

If the export of agricultural products of North Macedonia to Russia and Ukraine stopped, agricultural producers would suffer losses, particularly the producers of fresh fruits and vegetables. In 2021, North Macedonia exported €28.4 million in agricultural products to Russia (€24.3 million) and Ukraine (€4.1 million).

Overview of agricultural trade by country in 2020 and 2021:

	Export				**Import**				**Trade Balance**	
Country	**2020**		**2021**		**2020**		**2021**		**2020**	**2021**
	(Value € millions)	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	*(Share %)*	*(Value € millions)*	
Albania	14.3	2.4	18.7	2.9	8.4	1.0	10.5	1.1	5.9	8.2
Bosnia and Herzegovina	28.9	4.9	31.5	5.0	28.7	3.5	31.6	3.3	0.2	(0.1)
Serbia	63.9	10.8	71.6	11.4	190.9	23.2	230.9	24.5	(126.9)	(159.3)
Kosovo	65.4	11.1	64.9	10.3	9.2	1.1	12.3	1.3	56.2	52.6
Montenegro	12.9	2.2	15.7	2.5	1.7	0.2	1.9	0.2	11.3	13.7
Moldova	1.4	0.2	1.5	0.2	0.4	0.05	1.4	0.1	1.0	0.1
CEFTA-Total	186.9	31.6	203.9	32.5	239.5	29.1	288.8	30.6	(52.5)	(84.9)
EU-28-Total	294.3	49.7	317.6	50.6	385.4	46.8	447.9	47.4	(91.1)	(130.3)
Turkey	1.7	0.3	3.1	0.5	28.1	3.4	30.4	3.2	(26.3)	(27.3)
Brazil	0.4	0.06	3.4	0.5	25.6	3.1	26.7	2.8	(25.2)	(23.3)
USA	27.0	4.6	22.6	3.6	12.5	1.5	9.7	1.03	14.5	13.0
Other countries	81.2	13.7	77.4	12.3	131.6	16.0	140.5	14.1	(50.4)	-(63.1)
TOTAL whole world	591.7	100	627.9	100	822.6	100	944.1	100	(230.9)	(316.1)

Overview of total trade and trade with agricultural and fishery products between 2017 and 2021:

	Export					Import					Trade Balance				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
	€ millions (unless otherwise stated)														
Total trade	5,007.2	5,860.8	6,423.7	5,777.9	6,922.57	6,824.9	7,672.0	8,463.2	7,594.5	9,638.3	(1,817.7)	(1,811.1)	(2,039.5)	(1,816.6)	(2,715.7)
Total trade with agricultural, processed and fisheries products	536.2	545.50	624.5	591.7	628.0	759.8	792.2	837.2	822.6	944.1	(223.6)	(246.7)	(212.7)	(230.9)	(316.1)
Share of agricultural, processed and fisheries products in total trade	10.71%	9.31%	9.72%%	10.24%	9.07%	11.13%	10.3%	9.9%	10.8%	9.8%	12.3%	13.61%	10.4%	12.7%	11.6

In 2021, the export of agro-food products of North Macedonia into the 27 countries which make up the EU totaled €317.6 million, the breakdown of relevant products includes: unmanufactured tobacco (19.5%); biscuits and wafers (9.8%); wine (7.8%); other prepared or preserved vegetables (6.6%); cabbage (3.2%); live plants and cuttings (3%); apples, pears (2.9%); fresh or frozen vegetables (2.8%) and lamb meat (2.5%).

The export share of agro-food and fishery products compared to the total exports (industrial and agro-food products) from the Republic in 2021 decreased slightly to 9.07% from 10.24% in 2020. The import share of agro-food and fishery products into the Republic in 2021 also decreased (9.8%) compared to 2020 (10.8%).

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), organisation of agricultural markets, interventions for structural improvement of the land properties (consolidation) and for enhancing the knowledge, innovation and digitalisation (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 2017 to 2022, State support to the agricultural sector averaged €108.9 million per year, or 8.6% of the value of agricultural production, compared to a projection of €150 million and an average of €129 million allocated to agriculture in the annual central budgets. The share of disbursements to Rural Development Programmes, from both national and EU sources, is expected to amount to approximately 31%, or €159 million, in 2023. 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 2016-2021:

	2016		2017		2018		2019		2020		2021	
	Allocated	Disbursed	Allocated	Disbursed	Allocated	Disbursed	Allocated	Disbursed	Allocated	Disbursed	Allocated	Disbursed
	MKD millions											
Financial programmes												
For agriculture – direct payments	5,613	5,491	6,394	6,329	6,772	6,751	7,139	7,078	4,911	4,898	7,532	7,498
For rural development – contract based payments	1,884	1,657	1,707	1,322	1,583	1,128	849	826	1,864	1,763	1,682	1,587
For fisheries and aquaculture	55.5	19.7	32	21	53	16	28	26	70	46	55	34.7
For tobacco production	—	—	—	—	—	—	—	—	1,890	1,887	—	—
Total	7,552	7,168	8,133	7,672	8,408	7,895	8,016	7,930	8,735	8,594	9,269	9,119.7

Source: Ministry of Agriculture

The UN Food and Agriculture Organisation is supporting on-going initiatives in North Macedonia on 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. In 2021 and 2022, 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 aims to enable increased investments in the sector and better use of pre-accession funds under the IPARD Programme 2014-2020 and upcoming programme for the period 2021-2027.

Projects Under the FAO's Technical Cooperation Programme

Support to Integrated Community Development

Through this project FAO provides technical assistance in (1) capacity development on rural development policy and community development planning of the Ministry of Agriculture, Forestry and Water Economy ("**MAFWE**") staff, staff of regional and local government, and of other relevant institutions and organisations and (2) capacity development on rural development principles and practices in pilot areas through participatory integrated community development.

TCPF: Food Safety and Quality Standards in the Dairy Sector

The project focuses on: (i) strengthening the system on quality and safety requirements as a dimension of adopting and implementing CMO requirements and (ii) improvement of the capacities of all stakeholders along the dairy value chain to adopt, implement and enforce food quality and safety standards (tailor-made codes of practices and guidelines will be developed for different stakeholder groups (competent authorities and producers).

Support to Mainstreaming of the National Land Consolidation Programme

The UN Food and Agriculture Organisation is supporting ongoing 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 which include, among others, the MAINLAND Project.

The MAINLAND Project is funded by the EU (€2.5 million) and co-funded by FAO. It has been assisting small farms and family farms to overcome the problems arising from excessive land fragmentation, small farm sizes and insufficient agricultural infrastructure to increase productivity, competitiveness and efficiency of farms, thus enhancing the potential of the agricultural sector in North Macedonia. By bringing in expertise and strengthening the capacities of the Ministry of Agriculture, Forestry and Water Economy, key public agencies and geodetic companies, FAO supports the implementation of the first round of land consolidation projects under the national land consolidation programme.

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 programme 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 €50.8 million is planned for the construction of the Recani and Slupchanska dams through the national programmes of MAFWE of North Macedonia. The KfW has also granted a loan of €80 million and €30 national budget 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 and (iv) creation of an animal by-product processing centre.

Construction

Construction accounted for 5.3% and 5.4% GDP in 2020 and 2021, respectively and 8.0% of total employment in 2020. 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.

Roads Sector

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) an upgrade and renovation of the road along Corridor VIII (approximately 25.5 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 Krupishte to Kocani in length of 13.75 kilometres and the other from Raec to Drenovo, with a total length of 25 kilometres, as well as the rehabilitation of 26 national roads); (iv) the Kriva Palanka – Bulgarian Border Road Section (total length of 13 kilometres), which is funded by an EBRD loan, which has been in progress since February 2020 and is expected to be completed by the end of 2023; and (v) 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 – Drenovo, financed by EU IPA funds. This project was assigned to another contractor, two addendums to the Works Contract were signed in June 2021 and is approximately 70% complete as of October 2022. 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 totaling 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 was temporarily suspended due to termination of the contract. The new contractor started construction activities in July 2021 and is expected to finish the contract 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 Kriva Palanka – Rankovce is also on-going and is expected to be completed by mid-2023. The construction of Shtip to Radovish (Phase II) road section (new construction of approximately 23.5 km and reconstruction of 16 km) was funded by an EBRD loan and completed in December 2021.

In 2019, the Export-Import Bank of China provided additional financing for the ongoing 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 2023. See "*Overview of the Republic of North Macedonia—International Relations—Bilateral Initiatives—Export-Import Bank of China*".

Some significant road construction projects that have recently been completed include: an express road from Shtip to Krupiste (14.013 kilometres); two 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); and an express lane on national road A4 from Shtip to Radovis (Phase I and Phase II) (approximately 40 kilometres in length), funded by an EBRD loan. The rehabilitation of selected national and regional roads totaling over 100 kilometres have also been recently completed.

Rails Sector

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 July 2023.

Construction on the Kumanovo-Beljakovce section (31 kilometres) for the rail Corridor VIII has been delayed, after the original contract was terminated in July 2020. A new contract is signed on 20 July 2022 with the works to be completed within two years after commencement of construction, which was on 19 October 2022. 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.

Design work has been completed for the Beljakovce-KrivaPalanka section (34 kilometres) of rail Corridor VIII. The contractor signed a contract on 20 July 2022, with the project to be completed within 36 months after commencement of construction (19 October 2022). The funds for the design work and supervision services were secured through WBIF in an amount of €6.0 million. An EBRD Loan Agreement financing the construction phase was signed in 2014 in an amount of €145.0 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 to utilise the €68.6 million investment grant from the WBIF. Responsibilities related to the execution of the project pursuant to this Agreement are: to carry out the project with due diligence and efficiency and in accordance with Project Agreement and the Grant Agreement; to carry out the project in accordance with the Environmental and Social Action Plan and the Designated Performance Requirements; to cause the Project Completion Date to occur no later than 4 years after the commencement of works; and take all action necessary to ensure the successful completion of the project.

For the KrivaPalanka to Deve Bair section (23.4 kilometer) of rail Corridor VIII, 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 European Union Delegation ("**EUD**") through the Secretariat for European Affairs ("**NIPAC**") for further processing and approval of the EC. Upon receiving comments from EUD in May 2020, the IPA application was amended. The finalised version was signed by PE North Macedonia for railway infrastructure Railways of Republic, the Ministry of Transport and Communications and the NIPAC. It was submitted to the EUD and the EC on 21 January 2021. The IPA application is at EC services and no official reply has been received.

CONNECTA was recruited for preparation of environmental and social gap analysis, preparation of resettlement plan and revision of technical part of project documentation. CONNECTA work kicked-off in December 2021 and is ongoing. The CONNECTA engagement for this Corridor VIII (KrivaPalanka to Deve Bair section) project incorporates and assessment of the existing environmental and social documentation for development of the project including preparation of supplemental environmental and social documentation (including but not limited to preparation of supplemental documentation) and review of the existing technical project documentation. The initial timeframe for completion of these tasks is four months.

Communications

Communications accounted for approximately 2.8%, 2.6% and 2.7% of the GDP of North Macedonia in 2017, 2018 and 2019, 2.6% in 2020 and 2.6% in 2021 respectively. According to data from the Agency for Electronic Communications (the "**AEC**") of North Macedonia, five out of 9 entities registered in the AEC's official records in the first quarter of 2022 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 31 March 2022) indicates that A1 Macedonia had a market share of 48.14%, followed by Makedonski Telekom with 47.45%. Lycamobile started offering its services on the mobile market in the third quarter of 2016 and as of 31 March 2022 has a market share of 3.12%. Robi-Shtip started offering its services on the mobile market in the fourth quarter of 2018 and, as of 31 March 2021 and has a market share of 1.22%. Green-Prilep started offering its services on the mobile market in the third quarter of 2021 and has a market share of 0.1% The AEC's official records further indicate that 14 out of 14 entities registered with the AEC provided fixed network services in the first quarter of 2022.

A number of alternative operators/service providers are operating in the sector, with a market share of 47.5% in 2022, 47.1% in 2021, 46.5% in 2020, 46.1% in 2019, 44.5% in 2018 and 42.5% in 2017. In the first quarter of 2022, the market share of such alternative operators/service providers according to number of fixed lines was 47.48%.

Makedonski Telekom (SMP Operator) holds a share of 52.52% in the fixed network market, followed by A1 Macedonia with 41.07% (alternative operators/service providers), Robi (4.31%) and Neotel (2.10%).

According to the data provided by the State Statistical Office, in the first quarter of 2021, 86.4% of the total population aged 15-74 used the Internet, and 80.5% used the Internet every day or almost every day, 46.3% of people have ordered/bought goods or services over the Internet in the last 12 months. In 2021, 95% of the enterprises used a computer in their work. Fixed broadband connection to the Internet was used by 91.9% of the enterprises with 10 or more employees. Of the total number of enterprises, 48.8% had a website/homepage. Regarding e-commerce, 9.6% of the enterprises received e-sales orders via computer networks and 9.2% of the enterprises received web sales orders for products or services via a website

Regulation of the Communications Sector

On 24 April 2021, the Assembly of the Republic adopted the amendments to the Law on Electronic Communications. These amendments were adopted as part of the Republic's Memorandum of Understanding with the United States on 5G safety in October 2020. Amendments to the law on Electronic Communications stipulates that the risk profiles of all relevant providers and manufacturers of critical network equipment at the national level should be periodically assessed. These periodic assessments impose an obligation on network operators to limit or exclude such providers and manufacturers from equipment procurements for critical components and sensitive parts of network elements. In July 2019, the Assembly of the Republic 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 the Republic.

	EU (2019)	MKD (Fifth BCO Report March 2022)
Connectivity indicators in DESI		
1a1 Fixed broadband coverage	97%	99.48%
1a2 Fixed broadband take-up	78%	77.92%
1a1 4G coverage	96%	99.39%
1b2 Mobile broadband take-up	100%	75.83%
1b3 5G readiness	21%	22.2%
1c1 Fast broadband (NGA) coverage	86%	82.84%
1c2 Fast broadband take-up	41%	32.62%
1d1 Ultrafast broadband coverage	60%	63.1%
1d2 Ultrafast broadband take-up	26%	2.32%
1e1 Broadband price index	64%	—%

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

The Government 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.

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). The Minister of Information Society and Administration ("**MISA**") in cooperation with the Broadband Competence Office ("**BCO**") held meetings with the Community of Local Self-Government Units, the AEC and PE MRD regarding the implementation of activities for the preparation process of the Feasibility Study for construction of the NTON as an obligation from Conclusion of the 54th Government session. During June and July 2022, BCO worked on the preparation of the documents for submitting the application to the EU for the public procurement of consulting services for the preparation of a Feasibility Study for NTON.

During July 2022, AEC issued approvals to A1 Macedonia and Makedonski Telekom for the use of radio frequencies of 5G range. The term of validity of approvals for the use of radio frequencies is 15 years with the possibility of extension for another 5 years. The approvals are for national coverage for the entire territory of the Republic. The two existing mobile operators have already started broadcasting the 5G signal in several cities. The Directive on cost reduction for next generation network development has been implemented in the Law on Electronic Communications.

Tourism

Tourism was one of the hardest hit industries by the COVID-19 pandemic, the war in Ukraine and the energy crisis. The energy crisis in particular has affected not only airlines and large hotel chains, but also 80% of the tourism sector, which is made up of smaller service providers. In addition, the COVID-19 pandemic has necessitated changes in the Republic's tourism strategy.

In the first eight months of 2022, compared to the same period in 2021, the number of tourists increased by 35.1%. The number of domestic tourists increased by 4.0%, while that of foreign tourists increased by 87.8%. In the first eight months of 2022, compared to the same period in 2021, the number of nights spent increased by 20.1%. The number of nights spent by domestic tourists increased by 2.4%, while those by foreign tourists increased by 78.3%.

The primary markets, which account for 77% of the total number of overnight stays and 76% of the total number of tourists, are Albania, Bulgaria, Greece, Kosovo, Turkey, Poland, Serbia, the Netherlands and Croatia. Secondary markets account for 13.2% of the total number of tourists and 12.9% of the total number of overnight stays, including Slovenia, Great Britain, Italy, Spain and Germany.

In 2023, the Ministry of Economy plans to prepare a new National Strategy for Tourism Development, which aims to implement new trends in tourism and successful development of tourism in the Republic. In the Tourism Programme for 2023, the Ministry of Economy intends to continue the implementation of the integrated system for digitalisation of services in tourism with the aim of easier access for people and companies in obtaining certain services from institutions.

Pursuant to the programme, the Ministry of Economy, in cooperation with the tourism industry, will undertake activities related to the system for education and training in tourism and hospitality:

- Support of projects in the field of tourism;
- Subsidies for rural households in rural areas; and
- Subsidies for digitalisation of the tourism / catering sector.

Public Investments

The main goal of the public investment policy is to improve planning, realisation and implementation, which in turn will increase the growth potential of the domestic economy and will generate multiplier effects of economic growth in the medium-term. Key elements of the medium-term fiscal policy were redesigned and improved public finance structure, through an increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP.

The commitment to redesigning fiscal policy has been translated into a plan adopted by the Government, aimed at providing public finance sustainability, coupled by boosting economic growth.

The plan for the redesign of the fiscal policy with increased share of capital expenditures and reduced fiscal deficit is included as part of the budget for 2023 and in the medium-term in the Revised Fiscal Strategy 2023-2027. As part of the 2021 plan, current expenditures contributed to 88.9%, and capital expenditures contributed 11.6% of total expenditures. The Budget for 2022 had capital expenditures contributing a share of 14% of total expenditures and current expenditures reduced to a share of 86% of total expenditures. Capital spending is expected to be 15.0% of total expenditure in 2023.

During 2023, significant investments are planned in road infrastructure projects, with a budgeted amount of MKD 15 billion. These investments are related to the design, construction and use of Corridor VIII (section: Tetovo – Gositvar), highway expansion and construction of a new highway from Trebenishta – Struga – Kafasan, construction of the section Gostivar – Bukojcani, construction of the section Bukojcani – Kicevo and construction of Corridor X(d) (section: Prilep – Bitola). The projects relating to construction of Corridor VIII and Corridor X(d) are being realised on the basis of a special law adopted by Parliament.

In accordance with the annual Law on Budget Execution for 2022, the Government plans to adopt an annual program at the proposal of the Public Enterprise for State Roads, with the prior opinion of the Ministry of Transport and Communications.

Capital expenditures and investments in infrastructure represent a significant portion of the fiscal policy and are planned to contribute 5.1% of the planned GDP in the medium-term. Beginning in 2021, a new mechanism ("**KAPEF**") was introduced to increase the level of realisation of capital expenditures from the planned amounts on an annual level. As a legal obligation the budget users are obliged to realise 15% with the first quarter, 40% with the second quarter and 65% with the third quarter of capital expenditures.

If this obligation is not fulfiled, the Ministry of Finance will redistribute unused funds up to the prescribed limit to "Item 414 - Reserves for capital expenditures", without the right to spend. The Parliament will then decide on the use of redistributed funds based on the proposal of the Government. In this way, budget users are encouraged to realise the capital expenditures in the planned amount.

In addition, for better realisation of capital expenditures, the following is planned:

- More realistic (rather than optimistic) capital expenditure planning;
- Continuation of the application of the KAPEF mechanism;
- Prioritisation of capital investments and the strengthened role of the Government in the process of selection, supervision and monitoring of the realisation of capital projects;
- Establishment of a special PIM organisational unit in the Ministry of Finance for the assessment and monitoring of public infrastructure projects;
- Development of a module for managing public investments in the new IFMIS system; and
- Adopting a standard methodology for defining, preparing, reviewing, evaluating and prioritising new infrastructure projects.

In the medium-term period, fiscal policy remains to focus on ensuring substantial public investments, being a precondition for improvement of economic perspectives, as well as better living conditions for the citizens.

To this end, a significant amount of capital investments is projected by using budget funds, including funds under loans extended from international financial institutions and bilateral creditors.

The projected amounts speak of speeding up the infrastructure projects, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

The projected capital expenditures are calculated based on data from budgetary institutions that are ready to implement projects in the respective areas in the medium-term. In terms of the amount of funds forecasted and anticipated time until realization, a particularly significant part of the forecast capital expenditures relates to the construction of Corridor 8, a road infrastructure project, which has MKD 15 billion planned for its construction beginning in 2023.

CAPEF Mechanism

In 2021, the Law on Execution of the Budget of the Republic of North Macedonia ("**CAPEF Mechanism**") was introduced in an attempt to improve the realisation of capital expenditures, the law requires budget users to realise 15% of capital expenditures by the first quarter, 40% of capital expenditures by the second quarter and 65% of capital expenditures by the third quarter This new mechanism was established in 2021 and continued to be implemented in 2022. The provisions of the CAPEF Mechanism for realisation of capital expenditures will be applied at the end of 2022.

If these guidelines are not followed, the Ministry of Finance MPs redistribute the unused funds up to the prescribed limit to item "414 - Reserves for capital expenditures" with the same budget user, without the right to spend. The main purpose of the CAPRF mechanism is to stimulate budget users to realise capital expenditures, otherwise those budget users who have capital expenditures below the level prescribed for the given quarter will have their funds taken or reallocated to the Capital Reserve.

In order to improve the realisation of capital expenditures, a series of activities are planned, as follows:

- Budget users to plan capital expenditures more realistically;
- Continued application of the CAPEF Mechanism established in the Law on Budget Execution;
- Prioritisation of capital investments and the strengthening of the role of the Government in selection and supervision and monitoring of implementation through an established Delivery Unit;
- Strengthening the role of the Ministry of Finance in the process of public investment management by establishing a special organisational unit that will assess and monitor public infrastructure projects;
- Development of a module for public investment management in the new IFMIS system, which will support the submission of new infrastructure projects, assessment and preparation, approval and budgeting of projects and monitoring and reporting on projects;
- Adoption of a standard methodology for defining, preparing, reviewing, evaluating and prioritising new infrastructure projects;
- Improvement of the budget structure by increasing the share of capital expenditures in total budget expenditures; and
- Improvement of the structure of capital expenditures by reducing less productive capital expenditures (establishing rules and standards when buying / investing in vehicles, furniture, equipment).

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 2021 amounted to 12.1%, representing a decrease of 39.2% compared to 2015 (19.9%). In 2021, amongst the informally employed, men represented 8.1% of this workforce and women 4.0%, a decrease of 36.2% for men (12.7% in 2015) and 45.2% 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 Formalisation of the Informal Economy (2018–2022). The development of this strategy was supported by the International Labour Organisation (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 Formalisation 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 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, being cushioned as a result of the government support for companies retaining their employees. According to the Labour Force Survey, the average number of employed persons in 2020 decreased 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 average employment rate in 2020 was 47.2%, being almost unchanged in relation to 2019, while the average unemployment rate was reduced, accounting for 16%.

Following a decrease in the first quarter of 2021, the number of employed people slightly increased in the second quarter, prior to reaching 1.4% and 0.7% growth in the third and fourth quarter, respectively, on an annual basis, according to the Labour Force Survey. During the first nine months of 2021, employment growth increased the most within the services sector, the trade sector, as well as in the information and communication sector and the public sector. On the other hand, employment was mostly reduced at the hospitality industry sector, and to a lesser extent, at transportation and financial activity, as well as arts, entertainment and recreation activities, within the services sector. Employment was also reduced in the construction and agriculture sector.

The average employment rate in the 2021 was 47.2%, remaining unchanged as compared to the same period in the previous year. During this period, the unemployment rate registered a downward trend, reducing to 15.2%. in the third quarter, thus being lower by 80 basis points compared to the same quarter in the previous year.

In the third quarter of 2022, positive movements in the labour market continued, with the unemployment rate decreasing to 14.3%, (from 14.5% in the first quarter of 2022), amid a quarterly decline in the number of unemployed of 1.7%. The employment rate in the third quarter of 2022 was 47.3%, and the number of employees remained the same.

The average monthly net wages in 2020 was 7.8% higher in nominal terms, and 6.5% 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-19 included payment of wages for employees helped to mitigate the downward trend in wage growth during the second quarter. In 2021, average net wages grew by 5.7% in nominal terms and by 2.3% in real terms. Wage growth was broad based, with wages in the services sector increasing by 6.7%, and increasing by 4.6% nominally in the industrial sector.

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 2015-2020 was 43.2%. The youth unemployment rate decreased from 45.4% in 2018 to 35.7% in 2020. The average youth unemployment rate in 2021 was 36.4%, which is slightly higher compared to 2020 where the equivalent figure was 35.7%. In the first nine months of 2022 youth unemployment decreased to 32.7%. This overall 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						**Year ended 31 December**	**Nine months ended 30 September**[(2)]
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Labour market								
Working age population (ages 15-80)	1,676,659	1,678,890	1,679,935	1,682,702	1,684,820	1,685,589	1,682,800	1,465,315
Employed	705,991	723,550	740,648	759,054	797,651	794,909	795,087	692,694
Unemployed	248,933	225,049	213,564	198,569	166,363	155,949	147,917	117,317
Employment rate (%)	42.1	43.1	44.1	45.1	47.3	47.2	47.2	47.3
Unemployment rate (%) ..	26.1	23.7	22.4	20.7	17.3	16.4	15.7	14.5
Youth unemployment rate (%)...................................	47.3	48.2	46.7	45.4	35.6	35.7	36.4	32.7

	Year ended 31 December						Year ended 31 December	Nine months ended 30 September[(2)]
	2015	2016	2017	2018	2019	2020	2021	2022
Employment by ownership:								
Private	547,797	555,894	570,764	586,364	614,658	603,885	594,243	513,716
Other[(1)]............................	158,194	167,657	169,884	172,690	182,993	191,024	200,844	178,978

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

Note:

(1) Includes social, collective and state employment.

(2) The data for the first, second and third quarters of 2022 were processed using population forecasts for 2022 in accordance with the 2021 census.

The labour force (including both employed and unemployed people) amounted to 56.4% of the working age population in 2020, representing a decrease of 1.4% as compared to 2019. The labour force (including both employed and unemployed people) was 56.0% of the working age population in 2021, which is 0.7% lower compared to 2020 where the equivalent figure was 56.4%. In the first nine months of 2022, the labour force was 55.3% of the working age population.

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						Year ended 31 December	Nine months ended 30 September
	2015	2016	2017	2018	2019	2020	2021	2022
	(%)							
Sectors of Activity								
Agriculture, forestry and fishing.............................	17.9	16.6	16.2	15.7	13.9	12.0	11.5	10.0
Mining and quarrying......	0.9	0.9	0.9	0.9	0.8	0.9	1.0	1.0
Manufacturing................	19.4	19.0	19.3	19.9	19.8	19.9	19.8	19.3
Electricity, gas, steam and air conditioning supply....	1.4	1.4	1.4	1.4	1.3	1.2	1.0	1.1
Water supply, sewerage, waste management and remediation activities.......	1.7	1.8	1.7	1.9	2.2	2.0	2.1	2.2
Construction	7.1	7.2	7.2	7.4	7.0	6.9	6.8	6.6
Wholesale and retail trade, repair of motor vehicles, motorcycles.	13.8	14.4	14.7	14.3	14.1	14.7	15.4	15.4

	Year ended 31 December						Year ended 31 December	Nine months ended 30 September
	2015	2016	2017	2018	2019	2020	2021	2022
				(%)				
Transportation and storage	5.1	5.0	5.1	5.2	5.6	5.5	5.2	4.9
Accommodation and food service activities	3.8	3.5	3.9	4.1	4.3	4.3	3.6	3.6
Information and communication	2.1	1.9	1.8	1.7	1.9	2.3	2.6	3.1
Financial and insurance activities	1.4	1.5	1.5	1.1	1.3	1.5	1.3	1.6
Real estate activities	0.2	0.2	0.2	–(1)	0.3	0.3	0.3	0.3
Professional, scientific and technical activities	1.7	1.9	1.8	2.3	2.3	2.3	2.5	2.7
Administrative and support service activities	1.7	2.0	1.9	1.9	2.6	2.5	2.4	2.5
Public administration and defence, compulsory social security	7.3	7.5	7.2	7.0	6.7	6.9	7.4	7.5
Education	5.8	5.9	5.9	5.9	5.8	6.1	6.3	7.0
Human health and social work activities	5.2	5.4	5.5	5.6	5.7	6.3	6.7	6.7
Arts, entertainment and recreation	1.6	1.7	1.8	1.6	2.2	2.3	2.0	2.2
Other service activities	1.7	1.9	1.7	1.7	1.9	2.0	1.8	2.1
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	—	—	—
Activities of exterritorial organisations and bodies	0.1	0.1	0.1	0.2	0.2	0.1	—	—
Total	100.0	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

Note:

(1) Estimate to be published

(2) The data for the first, second and third quarters of 2022 were processed using population forecasts for 2022 in accordance with the 2021 census.

From 2015 to 2020, the number of employed persons in the private sector increased from 547,797 in 2015 to 603,885 in 2020, reflecting an increase of 12.2%. However, during the first nine months of 2021 the number of people employed in the private sector decreased to 594,243, a decrease of 1.6% since 31 December 2020. The number of employed persons in other sectors (including joint private and state ownership, collective or state ownership) increased by 20.8% from 2015 to 2020, from 158,194 persons in 2015 to 191,024 in 2020. In 2021, the number of employed persons in other sectors (including joint private and state ownership) increased to 200,844, an increase of 5.1% as compared to 31 December 2020.

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. In March 2021, the Government adopted the Operational Plan for Active Employment Programmes and Measures and Labour Market Services for 2021, with measures including: a programme for self-employment, support programme for creating new jobs, 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 agreed to set a national minimum wage, which was instituted in 2012. The minimum wage was increased in 2017, 2018, 2019 and 2020, to MKD 12,000, MKD 12,165, MKD 14,500 and MKD 14,934 (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 22,146 in April 2021 by the Ministry of Labour and Social Policy. In February 2022, the net minimum wage was increased by 18.5% to MKD 18.000 (MKD 26,422 in gross amount). With the amendments to the Law on Minimum Wage, the annual revision of the minimum wage will be based on 50% of the increase in the average net wage and 50% of the increase in Consumer Price Index, for the previous year, according to the data of the State Statistics Office. According to these amendments, the minimum wage cannot be lower than 57% of the amount of the average net salary paid in the previous year. The average monthly wage in 2021 was MKD 27,182 (in net amount), an increase of 5.7% from 2020. In the first nine months of 2022, the average net salary recorded a nominal growth of 9.9%. During this period, growth of the average salary was observed in all sectors, with the most pronounced in the hospitality industry, art and trade.

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							Nine months ended 30 September
Wages	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Average monthly gross wages in MKD.............	32,173	32,822	33,688	35,625	37,446	40,566	42,887	46,820
Gross wages, nominal annual growth (%)........	2.7	2.0	2.6	5.7	5.1	8.3	5.7	10.1
Gross wages, real annual growth (%)	3.0	2.2	1.2	4.2	4.3	7.0	2.4	(2.1)
Average net wages in MKD............................	21,906	22,342	22,928	24,276	25,213	27,182	28,718	31,322
Net wages, nominal annual growth (%)........	2.4	2.0	2.6	5.9	3.9	7.8	5.7	9.9
Net wages, real annual/period growth (%)...............................	2.7	2.2	1.2	4.4	3.1	6.95	2.3	(2.2)

Pensions

Pension and disability insurance in the Republic 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 2002 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. Starting in January 2023, the Pension Agency will charge a monthly fee from pension companies in the amount of 0.7% of the total contributions paid 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 (in second pillar) 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 https://mapas.mk/wp-content/uploads/2021/06/second-pillar-fees_2020.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 (pension companies) have been licenced to establish and manage private pension funds relating to the second and third pillar of the pension system (mandatory and voluntary pension funds) and one pension company for establishing and managing only voluntary pension funds.

In 2020 and 2021, 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; 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 before 1 January 1967 and signed a statement for extension of membership in the mandatory fully funded pension insurance. In December 2021, there were 550,477 members in the mandatory private pension funds with net assets totalling €1.72 billion.

In 2009, a third pillar was introduced, voluntary fully funded 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 2021, there were 27,772 members in the voluntary private pension funds with net assets totalling €46.66 million.

The Law on Pension Payment and Pension Benefits from the Fully Funded Pension Insurance regulates the pension payments from the second pillar, pension benefits 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 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 ILO). 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. With the amendment of the Decision on the establishment of a council for monitoring the situation in the pension system of 4 August 2021, a change was made in the composition of the council. According to the amendment, the members of the council are: Minister of Finance, Deputy of the President of the Government of the Republic of North Macedonia, Minister of Economy, President of the Council of Experts of the Agency for Supervision of Capital Funded Pension Insurance, Director of the Pension and Disability Insurance Fund of North Macedonia, Chairmen of the Board of Directors of a pension companies in the Republic.

At the beginning of 2018, the Council proposed Pension and Disability Insurance Fund of North Macedonia 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 North Macedonia" No. 245/2018 and "Official Gazette of the Republic of North Macedonia" 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.

These changes aimed at consolidating the pension system refer to:

- Increase in the contribution rate from 18% to 18.4% in 2019 and 18.8% in 2020;
- Indexation of pensions with 100% CPI from January 2019 and additional indexation when GDP growth is more than 4%;
- Harmonisation of replacement rates from the first and second pillar (increased for members of a two-pillar system, reduced for members of a single-pillar system):
    - The replacement rate for old-age pension for insured members in the second pension increased from 0.75% to 1% (male) and from 0.86% to 1.14% (female) of the pension base; and
    - For pensionable service completed after 1 January 2020, the pension is calculated at the amount of 1.47% of the pension base.

The amendments to the Law on Pension and Disability Insurance ("Official Gazette of the Republic of North Macedonia" No. 275/2019) stipulates that when average wages are increased more than 5% and minimum wages are increased more than 15%, additional adjustment of pensions can be done in a percentage not higher than the increase of the average salary in the previous year. The amount and method of additional adjustment of pensions is determined by a decision of the Government.

In December 2021, there were 328,570 pensioners and 572,303 insured persons, of which 91,703 were employed by the public sector. The Central Budget allocation for pension expenditures was 8.1% in 2019 and 9.1% in 2020. In 2021 and 2022, it is expected that Central Budget allocation for pension expenditures will amount to 8.6% of GDP and 8.4% 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 2021 amounted to MKD 15,876.

With the amendments to the Law on pension and disability insurance, which passed on 18 March 2022 ("Official Gazette of the Republic of North Macedonia" No. 67/2022), a new methodology is stipulated for pension indexation as 50% of the index of the cost of living and 50% of the increase in the average salary paid to all employees in the Republic. The pensions are indexed twice a year, on 1 March and 1 September, according to the percentage obtained as a sum of the increase in the cost of living index in the previous half year and the increase in the average salary in the Republic in the previous half year compared to the half year which precedes.

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.

The amendments to the Law on Labour Relations from July 2021 ("Official Gazette of the Republic of North Macedonia" No. 151/2021) prohibits extending employment after 67 years of age, (i.e., the employment terminates with the fulfilment of 64 years of age and 15 years of service, unless otherwise provided by another law). For those who have extended their employment after 67 years before the law comes into effect, the employment contract is valid until the expiration of the term for which it is extended, but no later than 30 June 2022.

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.

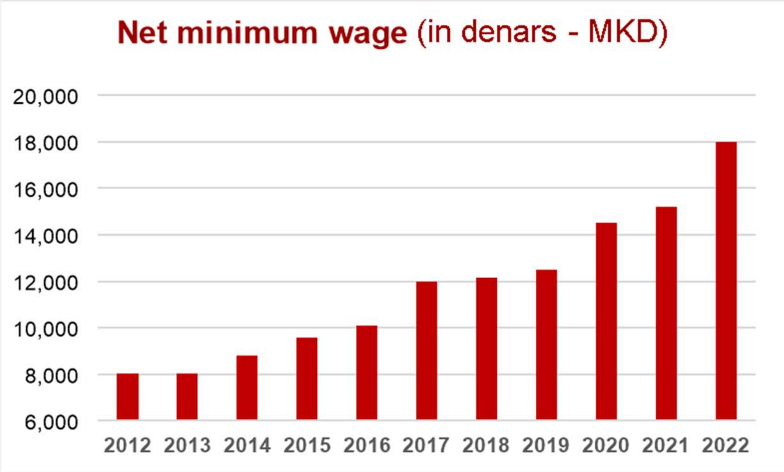
In order to comply with the new Law on Misdemeanours and Law on Inspection, the Law on Labour Relations was amended in November 2020.

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.

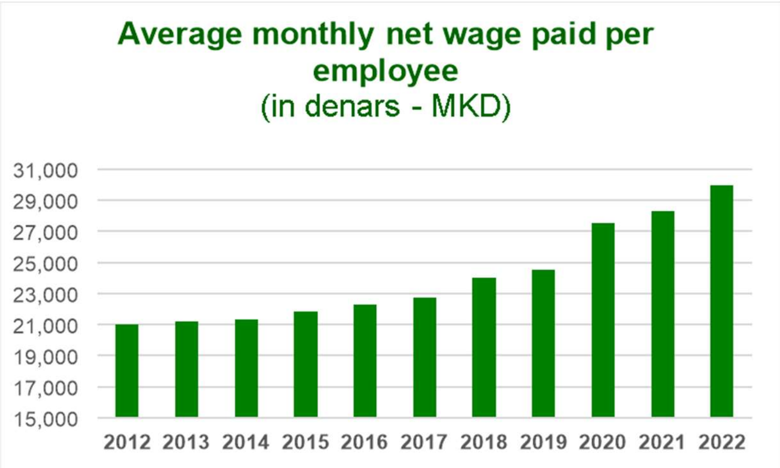
The minimum wage has been gradually harmonised in accordance with the Law on Minimum Wage in the Republic of North Macedonia. See "*—Average Monthly Wages*".

The following chart illustrates the growth of the net minimum wage over the past years:



(Source: State Statistical Office)

The following chart illustrates the growth of the average monthly net wage paid per employee in the past years:



(Source: State Statistical Office)

The Law on Labour Relations was amended twice during 2021. The first amendment, adopted in July 2021, restricts the ability to extend an employment contract after 67 years of age. Namely, it was stipulated that the employment contract shall be terminated by the employer when the employee reaches age of 64 years and 15 years of pension and disability insurance, unless otherwise is regulated by other law. The second amendment of the Law on Labour Relations, adopted in December 2021, deems Sunday as a weekly day rest, with exceptions for any essential work activities of such a nature that they cannot be interrupted (i.e. due to the technical or technological process and the need for continuity in work). In those instances, another day of the week may replace Sunday as the weekly day of rest. This law enumerates such activities and accordingly stipulates an obligation for the employer to pay a salary supplement of at least 50% to all workers who work on Sundays.

The new Law on Labour Relations was finalised at the end of 2022 and has been put in the procedure of public debate. The draft law will then be submitted for its adoption by the Government and, subsequently, the Parliament.

Social Protection

The Law on Social Protection ("Official Gazette of the Republic of North Macedonia" No. 104/19; 146/2019; 275/2019; 302/2020; 311/2020; 163/2021; 294/2021; 99/2022 and 236/2022) 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 COVID-19 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 COVID-19 pandemic in the coming period, it is expected that about 5000 new households will be covered in 2021. This situation lasted until June 2022.

A Law on Financial Support of Socially Vulnerable Categories of Citizens to Cope with the Energy Crisis was passed ("Official Gazette of the Republic of North Macedonia" No. 246/22), which provides for anti-crisis measures to help vulnerable categories of citizens in the form of financial support for a period of four months.

Under the Social Services Improvement Project, implemented by the Ministry of Labour and Social Policy with a loan from the World Bank, 18 social service providers received licences / work permits, 15 of which are home assistance and care service providers, and the remaining two are a centre for day care for children with disabilities, an Active Aging Centre for the elderly and one for counselling service. These service providers employ 126 people, who provide direct services to 279 users, 189 of whom are women.

Significant progress has been observed in the licensing of new social service providers. Prior to 2019, 69 licenced social service providers (associations of citizens and private entities) with the capacity to serve about 4,000 users were registered in the network of social service providers. Starting from 2019, a system was established for securing funds for citizens' associations and private providers of social services through an announced and implemented public competition, so that in 2022, nine management contracts were concluded with licenced providers of social services.

The implementation of the reform in social protection was supported through the project for the improvement of social services, which the Ministry of Labour and Social Policy implements through a loan from the World Bank. Within the framework of the project, sub-projects have been implemented that are intended for assistance and care of the elderly, and the rest are for the development of daycare services for the elderly with active aging, daycare for children with disabilities and rehabilitation, daycare for rehabilitation and reintegration of persons with disabilities and counseling. The services are provided by referring the user from the competent centres for social work. As of July 2022, a total of 692 users receive the services with the decision of the centres.

The development and sustainability of social services is a strategic priority of Ministry of Labour and Social Policy and a procedure for securing funds was initiated in order to continue the financing of these services from the Ministry's budget. During 2021, three Centres for Support of Foster Families were established, which will provide the service to 327 foster families with a total of 570 beneficiaries. Professionals employed in these centres have been trained to apply the standards and procedures for working with foster families and beneficiaries, as well as to support foster families at a time of pandemic.

The system for assistance, support and protection of women from violence and victims of domestic violence was strengthened through the establishment of 20 counselling centres for psycho-social treatment, for victims and for perpetrators of domestic violence.

Health

The health care system in the Republic 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 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 2022, 253,337 persons and their families were entitled to Government medical insurance free of charge.[1]

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 orthopedic 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.

Starting on 1 May 2020, the Health Insurance Fund introduced prescribing and dispensing of paperless medicines, through electronic prescription eRecipe for chronic therapy for chronically ill people. Also, The Health Insurance is working fast and dedicated, to make electronic prescription eRecipe available for all diagnoses and for all insured citizens.

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,

[1] Source: Health Insurance Fund's database; Health Insurance Fund's database.

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 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.

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 laws (i.e., the process of harmonising laws, rules and procedures) 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).

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. The Progress Monitoring for 2021 was prepared under the Regional "EU Environment Partnership Programme for Accession (EPPA) in Western Balkans and Turkey" and is in the final stage of approval.

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.

The procedure for re-proclamation of Matka and Ohid lake as a monument of nature has been initiated, as has the procedure to make Belcisko blato a new protected site as a nature park.

Reform of water and waste management

The Government is investing in and developing its water and waste management systems, with funding assistance from the EU IPA, IFIs, bilateral assistance and domestic co-financing.

The Government applied for loan from EBRD in June 2022 requesting €55 million for establishing an integrated regional waste management system in five planning regions. Two applications to WBIF were submitted for technical assistance and investment grant for infrastructure projects related to the loan from EBRD.

The contract for the Project for the Construction of WWTP for the City of Skopje is expected to be signed by the end of March 2023.

The Government has prepared and continuously updates technical documentation with regard to the water supply of North Macedonia. Further investments has 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 wastewater 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 in recent years have also enabled the Regulatory Commission of North Macedonia to adopt tariffs for water services in almost all municipalities in accordance with the act regulating the manner and procedure for determining the tariff, which will ensure full implementation.

In February 2021, the Government adopted a conclusion for the implementation of the second phase of the project "Water Supply and Wastewater collection", which will be implemented by the Ministry of Environment and Physical Planning. The project will be implemented on priority investments for water supply and sewerage systems on the territory of the Republic of Northern Macedonia, and financial resources in the amount of €50 million are provided by the EIB (EIB with a new additional loan). In that regard, the Ministry of Environment and Physical Planning as the institution responsible for the implementation of the project prepared a ranking list of projects in the field of water, which were proposed by the units of local self-government (i.e. municipalities). The law on borrowing was adopted by the Parliament of the Republic on 5 September 2022.

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.

In September 2022, the first Waste Prevention Plan of Republic of North Macedonia was adopted. The document assesses existing national waste prevention measures and defines national waste prevention objectives and moves from a linear approach to a more circular economy.

In September 2021, the National Waste Management Plan (2021-2031) was adopted, which includes the Packaging Waste Management Programme, the Electrical and Electronic Equipment Waste Management Programme and the Waste Battery and Battery Management Programme.

In 2020, the Government applied for a loan from EBRD to finance the establishment of the regional waste management system in five regions: Southeast, Vardar, Southwest, Pelagonija and Polog. The law on borrowing was adopted by the Parliament of the Republic on 11 November 2022.

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; and
- 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".

The Central Environmental Laboratory has a function in monitoring the quality of the environment, which is a tool for the development of future policies, as well as supporting the State Environmental Inspectorate in its role of law enforcement and control of self-monitoring of installations. The Central Environmental Laboratory was certified with seven test methods, six of which test water quality and one tests noise.

The national air quality monitoring network has been upgraded with three monitoring stations located in Berovo, Prilep and Ohrid in order continuously to assess the air quality and to follow the implementation of the air quality improvement measures.

Improving capacities for Natura 2000 and Convention on International Trade in Endangered Species of Wild Fauna and Flora programmes, both aimed at protecting endangered and rare species in the EU, continued through the IPA funded project for which the contract was signed in April 2022.

Climate Change

The Government has adopted the following documents in relation to climate change:

- Enhanced Nationally Determined Contribution to the Paris Agreement (eNDC)-in April 2021;
- Third Biennial Update Report (3rd BUR) on climate change-April 2021; and
- Integrated energy and climate plan, May 2022.

The adoption of these documents is part of the Republic's strategies towards achieving its medium-term and long-term goals, which includes achieving a 51% reduction in greenhouse gas emissions by 2030 as compared to 1990 levels. Expressed in net emissions, the aim is to achieve 82% reduction in 2030 as compared to 1990 levels. A long-term objective with regard to the Republic's contribution to the global effort to reduce net GHG emissions (including Forestry and Other Land Use and excluding MEMO items*) is to address national net GHG emissions, aiming to reach 72% by 2050 which would amount to a 42% reduction in GHG emission reduction as compared to 1990 (excluding Food and Land Use Coalition and MEMO items). Another long-term goal is to increase the Republic's resilience to the impacts of climate change across its society, economy and ecosystems to the impacts of climate change.

The draft Law on Climate Action is being prepared and intends to set the legal framework on monitoring and reporting. The Republic will be the first contracting party under the Energy Community of South East Europe (an organization of the EU and a number of non-EU countries in south east Europe aimed at linking the EU energy market to non-EU countries in the region) to transpose and adapt the energy governance regulation and its implementing regulation.

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.

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

- the National Energy Development Strategy was adopted 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 was adopted in May 2022;
- the Clean Air Plan was introduced in 2019 to reduce air pollution from domestic heating, transport, industry, construction and waste;
- the Air Pollution Reduction Programmes for 2019, 2020 and 2021 were implemented in order to fund measures to reduce air pollution. The activities of the programme refer mainly to the replacement of the existing non-ecological heating systems and the increase in energy efficiency in kindergartens, primary and secondary schools, public health facilities and municipal administrative facilities;
- as part of the IPA II project "Support to the Implementation of the Air Quality Directives" from the IPA II, the following strategic documents will be prepared: National Plan for the Protection of Ambient Air for the period 2024-2028 and National Air Pollution Control Programme for the period 2024-2034 as well as the activities will be conducted for strengthening administrative capacities for emission inventories, modelling, monitoring and air quality assessment;

- the National Waste Management Plan for the period 2021-2031 was adopted 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 is in the final stage of preparation. 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;
- the draft version of Law on Industrial Emissions is currently being prepared and will be up for consideration in 2022;
- the new draft Law on Nature, which fully transposes the requirements of the EU measures 31992L0043 and 32009L0147, is in its final preparation phase and will be published on UNER (Unique National Electronic Register of regulation of the Republic of North Macedonia) for a public consultation;
- through projects supported by the EU, 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 updated laws on the environment and air quality were adopted in July 2021 (*"The Official Gazette of the Republic of North Macedonia" No. 151/2021*), pursuant to the Government's working programme for 2021;
- MoEPP actively monitors the implementation of the *National plan to reduce emissions of major pollutants from large combustion plants in the energy sector.* According to the plan, the country is in line with the national ceiling value for nitrogen oxides for 2020, but not within the parametres for dust and sulphur oxides. Emissions from large combustion instalations for SOx and TSP are 86.7 kt and 3.68kt, respectively, which are a reduction as compared to 2019, but still exceed the upper limits of national ceiling values; and
- regarding the measures for reduction of pollutant emissions listed in this plan, the Energy Development Strategy until 2040 defined three scenarios: Reference Scenario, Moderate Transition Scenario and Green Scenario. Only in the Reference Scenario TEC Bitola continues to operate after 2025, while TEC Oslomej does not work in any of the scenarios.

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. As of October 2022, 56 enterprises were wholly or partially State owned. The 17 wholly State owned enterprises were Macedonian Post, Macedonian Bank for Development Promotion, ESM, MEPSO, MIA, Eurokompozit AD Prilep, TEC Negotino, National Energy Resources Skopje, Agri lend Skopje, State Lottery of Northern Macedonija, M-NAV AD Skopje, Macedonian Airport AD Skopje, Macedonian Rail-Transport AD Skopje, Public housing company AD Skopje, Water supply of Macedonia AD Skopje, Housing and real-estate company AD Skopje and GAMA Skopje. Of the remaining 39 companies, the State held less than 10% of the issued share capital in 34 of them.

BALANCE OF PAYMENTS AND FOREIGN TRADE

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

Balance of payments/1	For the year ended 31 December							As of 30.09	For the year ended 31 December							As of 30.09
	2015	2016	2017	2018	2019	2020	2021	2022	2015	2016	2017	2018	2019	2020	2021	2022
	(€million)								(% GDP)							
I. Current account	**-159**	**-252**	**-78**	**22**	**-335**	**-318**	**-366**	**-566**	**-1.8**	**-2.6**	**-0.8**	**0.2**	**-3.0**	**-2.9**	**-3.1**	**-4.1**
Goods and services	**-1,474**	**-1,472**	**-1,413**	**-1,365**	**-1,613**	**-1,380**	**-1,874**	**-1,973**	**-16.2**	**-15.2**	**-14.1**	**-12.7**	**-14.3**	**-12.7**	**-16.0**	**-14.1**
Credit	4,425	4,919	5,509	6,463	6,972	6,265	7,744	7,105	48.8	50.9	54.9	60.2	61.9	57.7	66.2	51.0
Debit	5,899	6,391	6,921	7,828	8,585	7,645	9,618	9,078	65.0	66.2	69.0	72.9	76.2	70.4	82.3	65.1
Goods	**-1,823**	**-1,813**	**-1,787**	**-1,736**	**-1,949**	**-1,804**	**-2,370**	**-2,629**	**-20.1**	**-18.8**	**-17.8**	**-16.2**	**-17.3**	**-16.6**	**-20.3**	**-18.9**
Credit	3,047	3,529	4,075	4,883	5,347	4,820	6,000	5,399	33.6	36.5	40.6	45.4	47.5	44.4	51.3	38.7
Debit/2	4,870	5,342	5,862	6,619	7,296	6,623	8,371	8,028	53.7	55.3	58.4	61.6	64.8	61.0	71.6	57.6
Services, net	**349**	**341**	**375**	**371**	**336**	**424**	**496**	**656**	**3.8**	**3.5**	**3.7**	**3.5**	**3.0**	**3.9**	**4.2**	**4.7**
Primary income, net	**-286**	**-384**	**-398**	**-451**	**-520**	**-411**	**-521**	**-447**	**-3.2**	**-4.0**	**-4.0**	**-4.2**	**-4.6**	**-3.8**	**-4.5**	**-3.2**
Secondary income, net	**1,601**	**1,604**	**1,732**	**1,838**	**1,798**	**1,473**	**2,029**	**1,853**	**17.6**	**16.6**	**17.3**	**17.1**	**16.0**	**13.6**	**17.4**	**13.3**
General government	54	91	113	109	43	110	139	35	0.6	0.9	1.1	1.0	0.4	1.0	1.2	0.3
Financial corporations, nonfinancial corporations, households, and NPISHs	1,547	1,513	1,619	1,729	1,755	1,363	1,891	1,818	17.1	15.7	16.1	16.1	15.6	12.6	16.2	13.0
II. Capital account	**7**	**11**	**18**	**12**	**8**	**11**	**7**	**-1**	**0.1**	**0.1**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.0**
Credit	8	11	18	12	11	11	8	2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.0
Debit	0	0	0	0	2	0	1	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	**-152**	**-242**	**-60**	**34**	**-327**	**-307**	**-359**	**-568**	**-1.7**	**-2.5**	**-0.6**	**0.3**	**-2.9**	**-2.8**	**-3.1**	**-4.1**
III. Financial account	**-138**	**-225**	**-54**	**66**	**-251**	**-314**	**-297**	**-481**	**-1.5**	**-2.3**	**-0.5**	**0.6**	**-2.2**	**-2.9**	**-2.5**	**-3.4**
Direct investment, net	**-203**	**-317**	**-180**	**-604**	**-363**	**-155**	**-388**	**-450**	**-2.2**	**-3.3**	**-1.8**	**-5.6**	**-3.2**	**-1.4**	**-3.3**	**-3.2**
Portfolio investment, net	**-66**	**-429**	**19**	**-320**	**151**	**-284**	**-116**	**-126**	**-0.7**	**-4.4**	**0.2**	**-3.0**	**1.3**	**-2.6**	**-1.0**	**-0.9**
Other investment, net	**314**	**183**	**253**	**440**	**-413**	**10**	**-99**	**-52**	**3.5**	**1.9**	**2.5**	**4.1**	**-3.7**	**0.1**	**-0.8**	**-0.4**
Currency and deposits, net	287	279	248	286	73	489	433	278	3.2	2.9	2.5	2.7	0.7	4.5	3.7	2.0
Loans, net	54	-106	37	-7	-225	-269	-249	-156	0.6	-1.1	0.4	-0.1	-2.0	-2.5	-2.1	-1.1
Trade credit and advances, net	-27	11	-32	163	-263	-208	-121	-169	-0.3	0.1	-0.3	1.5	-2.3	-1.9	-1.0	-1.2
Other accounts receivable/payable	0	0	0	0	0	-1	2	0	0.0	0.0	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	163	1	0.0	0.0	0.0	0.0	0.0	0.0	1.4	0.0
Reserve assets/3	**-183**	**338**	**-146**	**550**	**375**	**115**	**305**	**148**	**-2.0**	**3.5**	**-1.5**	**5.1**	**3.3**	**1.1**	**2.6**	**1.1**
IV. Net errors and omissions	**14**	**17**	**6**	**32**	**76**	**-7**	**62**	**87**	**0.1**	**0.2**	**0.1**	**0.3**	**0.7**	**-0.1**	**0.5**	**0.6**

Source: NBRNM.

Current Account

Approximately 52% of overall private transfers' inflows come from the EU, while only 0.1% come from Russia and Ukraine, and therefore the direct effect from the Russia-Ukraine conflict is limited. However, continued indirect effects are expected as a result of the slowdown of the economic activity in the EU, though private transfers remained robust in the course of 2022, increasing at a strong double-digit rate.

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 Non-Profit Institutions Serving Households ("**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 "*Economy of North Macedonia—Informal Economy*". Between 2017 and 2019, private transfers averaged 15.9% of GDP, reaching a historical high of €1.75 million (in nominal terms) in 2019. In 2020, due to the impact of the COVID-19 pandemic which significantly reduced the international movement of passengers, private transfers declined by 3.0% of GDP on annual basis. However, with easing of restrictions in 2021, as well as an increase in international travel of passengers, private transfers increased annually by 3.6% of GDP in 2021, outpacing the pre-pandemic level.

In 2015, the current account deficit increased to 1.8% of GDP, mainly due to the widening of the primary income deficit that reflected an improvement in the financial position of foreign companies and partly due to private transfers, which increased in nominal terms, but decreased in relative terms to 17.1% of GDP. 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 2.6% 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 17.1% to 15.7% 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 0.8% of GDP, representing a decrease of 1.8% of GDP compared to the current account deficit of 2.6% 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 16.1% of GDP compared to 15.7% in 2016.

In 2018, the current account registered a small surplus of 0.2% of GDP. The main contributor for this improvement 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 16.1% of GDP for the year.

In 2019, the current account deficit increased by 3.2% of GDP to 3.0% 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 deficit 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 to 4.6% of GDP, compared to 4.2% of GDP in 2018.

During 2020, the current account deficit narrowed slightly to 2.9% of GDP. Private transfers declined by 3% 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 compensated by the narrowing of the deficit in goods and services and by smaller deficit in the primary income 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.

In 2021, the current account deficit marginally widened by 0.2% of GDP, reaching 3.1% of GDP. During 2021, trade deficit increased by 3.7% of GDP amounting to 20.3% of GDP with an incline in both non-energy and energy trade deficit. The deficit in the primary income increased as well. The widening of the current account deficit was offset by an increase in private transfers (annual growth of 3.6% of GDP), primarily as a result of the easing of COVID-19 pandemic restrictions and an influx of international movement of passengers. Additionally, the surplus in services also increased over the same period.

In the first nine months of 2022, the current account deficit widened by 3.4% of GDP compared to the same period in 2021, reaching 4.1% of GDP. This deterioration mainly reflected an increase in the trade deficit which registered a sharp widening of the energy deficit (the non-energy trade balance slightly improved), despite the higher surplus in the services sector. The worsening of the energy deficit was predominantly caused by high increase in global energy prices. The private transfers registered a higher surplus over the same period, whereas primary income deficit was marginally lower (in relative terms).

The following table sets out the non-energy trade deficit in EUR billions and as a percentage of nominal GDP:

	Year ended 31 December						Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Non-energy trade deficit in EUR billions	1.29	1.22	1.12	1.27	1.30	1.82	1.45
Non-energy trade deficit as percent of nominal GDP	13.3%	12.2%	10.5%	11.3%	12.0%	15.6%	10.7%

Source: State Statistical Office

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 December 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 5.8% 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 0.9% of GDP (excluding official reserves) and net outflows amounted to 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 4.5% 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 4.2% of GDP.

In 2019, the financial account surplus amounted to 5.6% 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 7.6% of GDP in 2019. In 2019, FDI accounted for 3.2% of GDP, 2.4% 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 2.9% 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 3.9% of GDP. Net inflows were primarily comprised of government borrowing through the issuance of a Eurobond in June 2020. Net inflows amounted to 8.4% 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.

In 2021, the financial account registered a surplus of 2.4% of GDP. Net inflows of 7.5% of GDP mainly consist of direct investments (3.3% of GDP) and foreign government borrowing abroad in the form of long-term loans and issuance of debt securities such as Eurobonds. On the other hand, net outflows in the category currency and deposits (3.7% of GDP) persisted in 2021 as well, although their level declined compared to the same period last year (by 0.8% of GDP).

In the first nine months of 2022, the financial account reported a large surplus of 4.5% of GDP. The net-inflows were comprised of direct investments (3.2% of GDP), loans and short term flows such as trade credits. The main source of net-outflows continued to be the category currency and deposits (2% of GDP).

The following table sets forth the components of the capital and financial account for the periods indicated.

	For the year ended 31 December							As of 30 September
	2015	2016	2017	2018	2019	2020	2021	2022
				(% GDP)				
Financial account...........	0.5)	(5.8)	0.9	(4.5)	(5.6)	(3.9)	(2.4)	(4.5)
Direct investment, net......	(2.2)	(3.3)	(1.8)	(5.6)	(3.2)	(1.4)	(3.3)	(3.2)
Portfolio investment, net..	(0.7)	(4.4)	0.2	(3.0)	1.3	(2.6)	(1.0)	(0.9)
Currency and deposits, net...................................	3.2	2.9	2.5	2.7	0.7	4.5	3.7	2.0
Loans, net.......................	0.6	(1.1)	0.4	(0.1)	(2.0)	(2.5)	(2.1)	(1.1)
Trade credit and advances, net..................	(0.3)	0.1	(0.3)	1.5	(2.3)	(1.9)	(1.0)	(1.2)
Other accounts receivable/payable...........	0.0	0.0	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	1.4	0.0

Source: National Bank of the Republic of North Macedonia

Note:

Estimated.

The following table sets forth the official international reserves of North Macedonia for the periods indicated.

	For the year ended 31 December							As of 30 September
	2015	2016	2017	2018	2019	2020	2021	2022
	(*€ millions*)							
Gross foreign reserves	2,261.8	2,613.4	2,336.3	2,867.1	3,262.6	3,359.9	3,643.3	3,862.9
Gross foreign reserves indicators								
Gross foreign reserves, as % of GDP...........................	24.9	27.1	23.3	26.7	29.0	31.0	31.2	27.7
In months of the current year's imports	4.6	4.9	4.1	4.4	4.6	5.3	4.5	3.8
Gross foreign reserves/ Short-term debt [(1)]	1.7	1.7	1.3	1.4	1.6	1.9	1.7	1.1
Gross foreign reserves/ Short-term debt, with residual	1.1	1.2	0.9	1.0	1.0	1.1	1.3	0.9

Source: NBRNM.

Notes:

(1) Last available data for short-term debt as of 30 September 2022 and short-term debt, with residual maturity is a forecast from October 2022 projections.

In 2016, gross foreign 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 foreign 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 foreign 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 foreign reserves were net purchases of foreign exchange on the foreign exchange market by the NBRNM 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 NBRNM's intervention in the foreign exchange market.

In 2020, despite the negative economic effects of the COVID-19 pandemic, gross foreign 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 organisations. The NBRNM 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.

In 2021, the gross foreign reserves increased further by €283.4 million, despite the continued negative effects of the COVID-19 pandemic. The dominant factor driving reserves further up was the Government's borrowing abroad, again predominantly in the form of government bonds issuance. The NBRNM intervened on the foreign exchange markets with net-sale of foreign currency in last quarter of 2021 on the backdrop of globally rising primary commodity prices and energy crisis.

In 2022, the gross foreign reserves continued to increase further by €219.6 million compared to December 2021. This increase was mainly due to inflows from repo and derivative transactions, the increase in foreign currency deposits of commercial banks with the NBRNM and the Government's external borrowing (issuance of German Eurobond in September), while the NBRNM intervened on the foreign exchange markets with net-sale of foreign currency during this period. Due to the energy crisis and strong price pressures stemming from the Russian/Ukraine conflict, in the first half of 2022 NBRNM intervened with foreign currency selling that amounted to 2.9% of GDP. However, since July 2022 there has been a reversed trend on the foreign exchange market, where NBRNM's purchases of foreign currency offset around 61.2% of the sales in the first half of 2022.

Foreign trade

Commodity prices have increased as a result of the Russia/Ukraine conflict. This has affected the Republic's imports in the first eleven months of 2022, particularly in relation to import prices of energy and food. The energy import amounted to 17.8% of the total imports in the first eleven months of 2022 and the increase from the 10.6% share in 2021 is mostly due to the significant increase of energy prices. This has caused a deterioration in the trade balance during this period by 46.4% compared to the same period in 2021. The sharp increase in the energy trade deficit, due to the higher imports, explains more than 80% of the worsening of the total trade deficit. The length of the Russia/Ukraine conflict and effects on energy prices will determine any further effect on the trade balance. Additionally, how the Russia/Ukraine conflict affects the automotive industry and the export of machinery and transport equipment, may impact the trade balance as well.

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 ten 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 53.5% of total exports in 2021. The share of metals and textiles exports declined to approximately 16.2% of total exports in 2021, compared to approximately 40.1% at the end of 2010, when the structural changes started.

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% 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 9.5%. 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 10%, as a result of higher imports of non-ferrous metals by some of the 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 17.8% of GDP.

In 2020, exports declined by 10.1% 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% of GDP compared to 2019 and was 16.8% of GDP.

In 2021, exports registered significant growth of 19.7% on an annual basis. This increase was predominantly driven by the export-oriented companies in the automotive sector, evident in the higher exports of chemical materials and products and machinery and transport equipment, as well as the higher exports of iron and steel and metalliferous ores. Imports increased by 26.8% as a result of the higher energy imports, due to the sharp increase of the energy prices in 2021. Also, higher imports were registered in the machinery and transport equipment, inorganic chemical products and non-ferrous metals, all export-related categories in the imports, as well as higher imports of iron and steel. As a result, the trade deficit in 2021 increased to 23.2% of GDP.

During the first eleven months of 2022, exports increased by 20.8%, mostly due to exports in the automotive sector, particularly of chemical materials and products, as well as higher energy exports and exports of road vehicles. During the first eleven months of 2022 imports increased by 27.8%, driven by the higher energy imports as a result of the sharp increase of the energy prices. Additionally, higher imports of machinery and transport equipment, non-ferrous metals and iron and steel were recorded. Taking into consideration the unfavourable terms of trade, the trade deficit widened by 4.6% of GDP.

In the last ten 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 "*Economy of North Macedonia—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 nine months ended 30 September**	**For the year ended 31 December**							**For the eleven months ended 30 November**
Groups of Products[2]	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022[3]**
	(€million)								*(% GDP)*							
Food and live animals	551.7	554.5	605.7	628.1	671.2	665.4	745.4	642.4	6.1	5.7	6.0	5.8	6.0	6.2	6.4	5.8
Meat and meat preparations	122.4	118.4	132.8	138.6	145.0	134.8	147.7	134.7	1.3	1.2	1.3	1.3	1.3	1.2	1.3	1.2
Cereals and cereal preparations	84.1	78.6	87.4	88.9	98.4	96.8	107.4	99.7	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9
Beverages and tobacco	60.2	72.9	74.8	81.8	83.1	69.2	90.0	85.8	0.7	0.8	0.7	0.8	0.7	0.6	0.8	0.7
Crude materials, inedible, except fuels	189.6	131.8	173.1	204.2	244.1	220.5	245.4	180.8	2.1	1.4	1.7	1.9	2.2	2.0	2.1	1.5

Imports[1]	For the year ended 31 December							For the nine months ended 30 September	For the year ended 31 December							For the eleven months ended 30 November
Groups of Products[2]	2015	2016	2017	2018	2019	2020	2021	2022	2015	2016	2017	2018	2019	2020	2021	2022[3]
	(€million)								*(% GDP)*							
Metalliferous ores and metal scrap	111.1	52.0	89.2	118.4	156.6	135.1	151.3	105.7	1.2	0.5	0.9	1.1	1.4	1.2	1.3	0.8
Mineral fuels, lubricants and related materials....	633.5	551.0	667.0	779.3	865.4	601.0	1,023.9	1,624.7	7.0	5.7	6.6	7.3	7.7	5.5	8.8	14.2
Petroleum and petroleum products..	418.1	380.9	444.0	539.5	600.0	341.9	581.8	857.9	4.6	3.9	4.4	5.0	5.3	3.2	5.0	7.5
Electric energy........	119.8	83.9	111.2	113.5	135.6	154.1	278.0	490.9	1.3	0.9	1.1	1.1	1.2	1.4	2.4	3.9
Animal and vegetable oils and fats	52.6	53.2	44.0	44.8	45.4	50.3	66.7	69.0	0.6	0.6	0.4	0.4	0.4	0.5	0.6	0.6
Chemical Products	688.3	724.5	766.2	892.4	1,000.0	1,083.2	1,525.3	1,246.4	7.6	7.5	7.6	8.3	8.9	10.0	13.0	10.8
Medical and pharmaceutical products	131.4	146.4	152.0	188.2	186.2	214.5	256.3	166.6	1.4	1.5	1.5	1.8	1.7	2.0	2.2	1.5
Chemical materials and products............	126.8	163.3	179.6	213.3	219.4	182.7	188.7	139.2	1.4	1.7	1.8	2.0	1.9	1.7	1.6	1.2
Manufactured goods classified by materials................	2,063.5	2,311.8	2,554.8	2,824.0	3,142.7	2,716.6	3,291.9	2,931.0	22.7	23.9	25.4	26.3	27.9	25.0	28.2	26.1
Textile yarns, fabrics, etc...............	419.8	423.3	450.4	461.1	449.2	393.7	398.9	352.2	4.6	4.4	4.5	4.3	4.0	3.6	3.4	3.2
Iron and steel...........	293.5	340.1	373.8	455.5	431.3	362.3	542.9	515.9	3.2	3.5	3.7	4.2	3.8	3.3	4.6	4.5
Non-ferrous metals..	743.6	830.5	944.7	1,008.4	1,281.2	1,069.6	1,326.2	1,157.0	8.2	8.6	9.4	9.4	11.4	9.9	11.3	10.3
Machinery and transport equipment..............	1,168.7	1,322.7	1,473.9	1,701.9	1,830.8	1,670.1	2,035.2	1,702.8	12.9	13.7	14.7	15.8	16.3	15.4	17.4	15.3
Road vehicles..........	246.8	298.1	325.7	356.3	383.3	352.2	387.3	271.5	2.7	3.1	3.2	3.3	3.4	3.0	3.3	2.4
Miscellaneous manufactured articles....................	388.5	446.6	467.9	514.9	550.8	516.6	607.6	504.4	4.3	4.6	4.7	4.8	4.9	4.8	5.2	4.5
Commodities and transactions not classified in SITC ..	4.6	7.4	7.5	5.0	7.6	6.2	6.9	12.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Total Imports	5,801.1	6,176.5	6,834.9	7,676.3	8,441.0	7,599.4	9,638.3	8,999.3	63.9	64.0	68.1	71.4	75.0	70.0	82.4	79.7

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.

Imports[1]	For the year ended 31 December							For the eleven months ended 30 November
Groups of Products[2]	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
	(share of total import, %)							
Food and live animals	9.5	9.0	8.9	8.2	8.0	8.8	7.7	7.3

Imports[1]	For the year ended 31 December							For the eleven months ended 30 November
Groups of Products[2]	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
	(share of total import, %)							
Meat and meat preparations	2.1	1.9	1.9	1.8	1.7	1.8	1.5	1.5
Cereals and cereal preparations	1.4	1.3	1.3	1.2	1.2	1.3	1.1	1.2
Beverages and tobacco.....	1.0	1.2	1.1	1.1	1.0	0.9	0.9	0.9
Crude materials, inedible, except fuels	3.3	2.1	2.5	2.7	2.9	2.9	2.5	1.9
Metalliferous ores and metal scrap........................	1.9	0.8	1.3	1.5	1.9	1.8	1.6	1.0
Mineral fuels, lubricants and related materials.......	10.9	8.9	9.8	10.2	10.3	7.9	10.6	17.8
Petroleum and petroleum products	7.2	6.2	6.5	7.0	7.1	4.5	6.0	9.5
Electric energy..................	2.1	1.4	1.6	1.5	1.6	2.0	2.9	4.9
Animal and vegetable oils and fats	0.9	0.9	0.6	0.6	0.5	0.7	0.7	0.8
Chemical Products...........	11.9	11.7	11.2	11.6	11.8	14.3	15.8	13.6
Medical and pharmaceutical products	2.3	2.4	2.2	2.5	2.2	2.8	2.7	1.8
Chemical materials and products	2.2	2.6	2.6	2.8	2.6	2.4	2.0	1.5
Manufactured goods classified by materials........	35.6	37.4	37.4	36.8	37.2	35.7	34.2	32.7
Textile yarns, fabrics, etc ...	7.2	6.9	6.6	6.0	5.3	5.2	4.1	4.0
Iron and steel.....................	5.1	5.5	5.5	5.9	5.1	4.8	5.6	5.7
Non ferous metals	12.8	13.4	13.8	13.1	15.2	14.1	13.8	12.9
Machinery and transport equipment........................	20.1	21.4	21.6	22.2	21.7	22.0	21.1	19.2
Road vehicles....................	4.3	4.8	4.8	4.6	4.5	4.3	4.0	3.0
Miscellaneous manufactured articles......	6.7	7.2	6.8	6.7	6.5	6.8	6.3	5.7
Commodities and transactions not classified in SITC	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Total Imports	100.0	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 eleven months ended 31 November	For the year ended 31 December							For the eleven months ended 30 November
	(€million)								*(% GDP)*							
Groups of Products[2]	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**[3]
	(€ millions)								*(in % of GDP)*							
Food and live animals......................	306.2	315.2	306.8	319.7	367.5	363.4	389.5	417.6	3.4	3.3	3.1	3.0	3.3	3.3	3.3	3.0
Fruits and vegetables ..	164.7	172.0	150.5	145.9	175.4	184.0	182.7	198.2	1.8	1.8	1.5	1.4	1.6	1.7	1.6	1.4
Beverages and tobacco	144.9	177.6	197.8	194.1	219.0	193.7	195.2	191.2	1.6	1.8	2.0	1.8	1.9	1.8	1.7	1.4
Beverages...................	48.3	59.0	58.7	65.8	75.3	68.6	67.1	80.5	0.5	0.6	0.6	0.6	0.7	0.6	0.6	0.6
Tobacco and tobacco preparations................	96.6	118.6	139.2	128.4	143.8	125.1	128.1	110.7	1.1	1.2	1.4	1.2	1.3	1.2	1.1	0.8
Crude materials, inedible, except fuels.	195.2	187.5	286.3	318.6	332.1	283.9	374.8	386.5	2.2	1.9	2.9	3.0	2.9	2.6	3.2	2.8
Metalliferous ores and metal scrap	149.0	137.8	210.2	232.3	234.5	209.5	280.1	285.7	1.6	1.4	2.1	2.2	2.1	1.9	2.4	2.0
Mineral fuels, lubricants and related materials.......	55.5	52.0	75.4	99.8	131.2	81.5	127.6	329.3	0.6	0.5	0.8	0.9	1.2	0.8	1.1	2.4
Petroleum and petroleum products	42.4	41.4	48.3	70.6	93.5	35.2	83.6	140.1	0.5	0.4	0.5	0.7	0.8	0.3	0.7	1.0
Animal and vegetable oils and fats	18.3	18.4	6.1	8.4	12.7	8.9	15.5	21.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Chemical Products....	923.0	1,036.8	1,200.9	1,420.9	1,560.7	1,378.0	1,876.9	2,612.6	10.2	10.7	12.0	13.2	13.9	12.7	16.1	18.7
Medical and pharmaceutical products......................	63.8	69.5	79.9	88.4	93.7	108.9	110.3	115.4	0.7	0.7	0.8	0.8	0.8	1.0	0.9	0.8
Chemical materials and products	779.2	883.4	1,031.6	1,233.9	1,348.7	1,154.6	1,599.9	2,301.0	8.6	9.1	10.3	11.5	12.0	10.6	13.7	16.5
Manufactured goods classified by materials....................	724.4	625.8	676.8	822.8	855.4	851.6	1,108.2	1,147.2	8.0	6.5	6.7	7.7	7.6	7.8	9.5	8.2
Nonmetallic mineral manufactures, n.e.s	43.3	41.0	52.9	61.7	65.7	73.7	71.1	95.6	0.5	0.4	0.5	0.6	0.6	0.7	0.6	0.7
Iron and steel	522.2	414.0	435.6	542.3	582.7	557.1	776.6	736.0	5.8	4.3	4.3	5.0	5.2	5.1	6.6	5.3
Machinery and transport equipment.	1,008.6	1,234.6	1,476.9	1,869.7	2,121.6	1,906.6	2,107.1	1,750.0	11.1	12.8	14.7	17.4	18.8	17.6	18.0	12.5
General industrial machinery and equipment...................	446.6	518.0	553.6	654.8	775.5	726.4	826.4	222.9	4.9	5.4	5.5	6.1	6.9	6.7	7.1	1.6
Electrical machinery, apparatus and appliances,..................	401.7	482.9	640.1	851.4	948.0	854.9	1,002.9	1,060.9	4.4	5.0	6.4	7.9	8.4	7.9	8.6	7.6
Miscellaneous manufactured articles.......................	710.4	738.3	787.3	813.0	826.9	709.8	720.6	787.2	7.8	7.6	7.8	7.6	7.3	6.5	6.2	5.6
Clothing......................	481.9	474.0	465.4	455.8	434.8	362.4	342.3	375.9	5.3	4.9	4.6	4.2	3.9	3.3	2.9	2.7
Footwear	57.9	54.1	58.1	49.2	38.8	25.2	29.3	23.0	0.6	0.6	0.6	0.5	0.3	0.2	0.2	0.2
Commodities and transactions not classified in SITC......	1.1	4.1	4.3	5.4	6.2	3.8	7.0	6.5	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0
Total Exports............	4,087.6	4,390.3	5,018.7	5,872.5	6,433.3	5,781.1	6,922.6	7,649.4	45.1	45.5	50.0	54.7	57.1	53.3	59.2	54.9

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 sharp increase in the export of goods in 2021 was largely due to subdued export performance in 2020 as a result of the COVID-19 pandemic, especially in the first half of 2020. Export increased by 19.7% on an annual basis, and the growth was especially prominent in the first six months of the year (39% annually), as a result of the increased global economic activity and the gradual easing of restrictions together with vaccination roll-out. The global value chains showed further normalisation in 2021, however, the constraints of the global shortages and continued issues related to the international transport of goods, contributed to the continued effects of the COVID-19 pandemic on exports and increased in the second half of 2021. Despite these obstacles, exports still increased by 5.9% of GDP in 2021 compared to 2020.

The following table shows the export structure by main categories according to the Standard International Trade Classification, as share of total exports.

Exports[1]	**For the year ended 31 December**							**For the eleven months ended 30 November**
Groups of Products[2]	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
				(share of total export, %)				
Food and live animals	7.5	7.2	6.1	5.4	5.7	6.3	5.6	5.5
Fruits and vegetables..........	4.0	3.9	3.0	2.5	2.7	3.2	2.6	2.6
Beverages and tobacco.....	3.5	4.0	3.9	3.3	3.4	3.4	2.8	2.5
Beverages..........................	1.2	1.3	1.2	1.1	1.2	1.2	1.0	1.1
Tobacco and tobacco preparations	2.4	2.7	2.8	2.2	2.2	2.2	1.9	1.4
Crude materials, inedible, except fuels	4.8	4.3	5.7	5.4	5.2	4.9	5.4	5.1
Metalliferous ores and metal scrap........................	3.6	3.1	4.2	4.0	3.6	3.6	4.0	3.7
Mineral fuels, lubricants and related materials.......	1.4	1.2	1.5	1.7	2.0	1.4	1.8	4.3
Petroleum and petroleum products	1.0	0.9	1.0	1.2	1.5	0.6	1.2	1.8
Animal and vegetable oils and fats	0.4	0.4	0.1	0.1	0.2	0.2	0.2	0.3
Chemical Products...........	22.6	23.6	23.9	24.2	24.3	23.8	27.1	34.2
Medical and pharmaceutical products	1.6	1.6	1.6	1.5	1.5	1.9	1.6	1.5
Chemical materials and products	19.1	20.1	20.6	21.0	21.0	20.0	23.1	30.1
Manufactured goods classified by materials......	17.7	14.3	13.5	14.0	13.3	14.7	16.0	15.0
Nonmetallic mineral manufactures, n.e.s.............	1.1	0.9	1.1	1.1	1.0	1.3	1.0	1.3
Iron and steel.....................	12.8	9.4	8.7	9.2	9.1	9.6	11.2	9.6
Machinery and transport equipment........................	24.7	28.1	29.4	31.8	33.0	33.0	30.4	22.9
General industrial machinery and equipment ..	10.9	11.8	11.0	11.2	12.1	12.6	11.9	2.9
Electrical machinery, apparatus and appliances,	9.8	11.0	12.8	14.5	14.7	14.8	14.5	13.9

Exports(1)	For the year ended 31 December							For the eleven months ended 30 November
Groups of Products(2)	2015	2016	2017	2018	2019	2020	2021	2022
	(share of total export, %)							
n.e.s., and electrical parts thereof................................								
Miscellaneous manufactured articles......	17.4	16.8	15.7	13.8	12.9	12.3	10.4	10.3
Clothing.............................	11.8	10.8	9.3	7.8	6.8	6.3	4.9	4.9
Footwear............................	1.4	1.2	1.2	0.8	0.6	0.4	0.4	0.4
Commodities and transactions not classified in SITC	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Exports....................	100.0	100.0	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														For the eleven months ended 30 November	
	2015		2016		2017		2018		2019		2020		2021		2022	
	(€ millions)	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*
Export....................	4,087.6	100.0	4,390.3	100.0	5,018.7	100.0	5,872.5	100.0	6,433.3	100.0	5,781.1	100	6,922.6	100	7,649.4	100
Germany	1,798.3	44.0	2,034.0	46.3	2,354.1	46.9	2,765.1	47.1	3,129.3	48.6	2,717.5	47.0	3,234.2	46.7	3,437.4	44.9
Bulgaria	245.1	6.0	223.0	5.1	294.1	5.9	306.7	5.2	314.2	4.9	272.4	4.7	335.6	4.8	383.3	5.0
Kosovo	177.8	4.4	188.6	4.3	198.8	4.0	226.4	3.9	302.3	4.7	233.8	4.0	302.8	4.4	348.0	4.5
Serbia......................	185.6	4.5	194.3	4.4	219.2	4.4	235.4	4.0	250.7	3.9	223.3	3.9	292.2	4.2	355.6	4.6
Belgium	130.0	3.2	170.9	3.9	177.7	3.5	219.9	3.7	212.9	3.3	157.5	2.7	61.0	0.9	115.8	1.5
Italy	167.9	4.1	158.4	3.6	163.9	3.3	184.7	3.1	174.5	2.7	143.3	2.5	207.7	3.0	272.6	3.6
Greece.....................	150.1	3.7	147.7	3.4	180.1	3.6	190.5	3.2	173.8	2.7	176.6	3.1	206.0	3.0	291.1	3.8
Hungary..................	19.7	0.5	40.8	0.9	75.5	1.5	121.0	2.1	163.2	2.5	171.6	3.0	212.5	3.1	236.7	3.1
Romania..................	99.2	2.4	121.8	2.8	155.7	3.1	164.8	2.8	153.7	2.4	105.6	1.8	97.3	1.4	108.7	1.4
China	132.1	3.2	43.5	1.0	55.8	1.1	56.1	1.0	149.1	2.3	141.8	2.5	156.0	2.3	49.3	0.6
Others	981.8	24.0	1,067.3	24.3	1,143.9	22.8	1,401.9	23.9	1,409.7	21.9	1,437.9	24.9	1,817.5	26.3	2,051.0	26.8
Import....................	5,801.1	100	6,106.7	100	6,834.9	100.0	7,676.3	100.0	8,441.0	100.0	7,599.4	100.0	9,638.3	100.0	11,110.0	100.0
Germany	732.4	12.6	750.2	12.3	805.6	11.8	890.2	11.6	961.7	11.4	809.6	10.7	979.8	10.2	938.4	8.4
Great Britain	558.7	9.6	654.7	10.7	691.2	10.1	729.6	9.5	969.2	11.5	1,170.5	15.4	1,701.2	17.7	1,761.3	15.9
Greece.....................	451.0	7.8	449.7	7.4	546.1	8.0	650.6	8.5	684.0	8.1	452.6	6.0	737.3	7.6	1,255.3	11.3
Serbia......................	446.0	7.7	459.8	7.5	489.4	7.2	519.3	6.8	606.8	7.2	558.6	7.4	659.7	6.8	694.6	6.3
China	355.7	6.1	381.5	6.2	394.1	5.8	443.8	5.8	487.3	5.8	522.6	6.9	643.8	6.7	871.2	7.8
Italy	352.8	6.1	348.0	5.7	378.8	5.5	431.1	5.6	471.8	5.6	339.4	4.5	417.6	4.3	420.3	3.8

	For the year ended 31 December														For the eleven months ended 30 November	
	2015		2016		2017		2018		2019		2020		2021		2022	
	(€ millions)	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*
Turkey	291.4	5.0	315.8	5.2	324.8	4.8	360.8	4.7	404.9	4.8	388.5	5.1	530.3	5.5	705.6	6.4
Bulgaria	307.9	5.3	281.6	4.6	293.2	4.3	329.8	4.3	324.5	3.8	310.1	4.1	411.3	4.3	563.2	5.1
USA........................	91.5	1.6	135.4	2.2	156.0	2.3	207.9	2.7	276.8	3.3	207.6	2.7	189.3	2.0	159.6	1.4
Romania..................	187.2	3.2	192.9	3.2	219.6	3.2	262.8	3.4	214.1	2.5	185.8	2.4	251.7	2.6	229.6	2.1
Others	2,026.7	34.9	2,137.1	35.0	2,536.2	37.1	2,850.4	37.1	3,039.9	36.0	2,654.1	34.9	3,116.2	32.3	3,510.8	31.1

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 46.7% of total exports in 2021 and 44.9% of total exports in the first eleven months of 2022.

The share of trade with Russia in 2021 was 1.2% of the total foreign trade (2.3% in the first eleven months of 2022), and trade with Ukraine was 0.9% of total foreign trade (0.6% in the first eleven months of 2022). Trade with both countries is predominantly driven by the imports, Russia being mostly energy imports (natural gas) and Ukraine being mostly iron and steel products imports.

The high share and surplus related to Germany were primarily driven by an increase in exports to this country 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 2020		For the year ended 31 December 2020		For the eleven months ended 30 November	
	(€ millions)	*Share in percent)*	*(€ millions)*	*Share in percent)*	*(€ millions)*	*Share in percent)*
Total exports to Germany(1)(2)	2,717.5	100.0%	3,234.2	100.0%	3,437.4	100.0%
Key exports by tariff:						
Section II: Vegetable products..............	17.3	0.6%	16.3	0.5%	17.3	0.5%
Section IV: Prepared foodstuffs, beverages and tobacco	21.8	0.8%	25.9	0.8%	24.0	0.7%
Section VI: Chemical products	1,115.4	41.0%	1,553.1	48.0%	2,233.6	65.0%
Section XI: Textiles	222.9	8.2%	191.8	5.9%	199.3	5.8%
Section XV: Base metals	30.6	1.1%	51.2	1.6%	54.6	1.6%
Section XVI: Machinery and electrical equipment	1,168.8	43.0%	1,240.1	38.3%	663.2	19.3%
Section XX: Miscellaneous manufactured articles............................	93.2	3.4%	72.3	2.2%	80.9	2.4%

Notes:

(1) Preliminary data for 2021.

(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 some of the foreign owned company in the automotive sector of North Macedonia. In 2021, imports from the UK amounted to €1.7 billion, 17.7% of total imports. The primary imports from the UK in 2021 are metals from the platinum group and their alloys (44.6%), precious metals and compounds (28%), platinum and platinum alloys (21.6%) and precious metal catalysts (0.5%). In 2021, exports to the UK amounted to €177.8 million, 2.6% 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 (23.8%), ash and residues containing metals (except iron and steel) (22.7%), machinery and apparatus for filtering or purifying liquids or gases (6.8%), bedding (6.8%) and seat parts (6.2%). The UK's share of total exports increased from 1% in 2015 to 2.6% in 2021. In 2021, the highest trade deficit was recorded with the UK, reflecting imports of raw materials used in manufacturing products for export. In the first eleven months of 2022, imports from the UK were €1.8 billion, consisting of 15.9% of total imports, while the exports in the same period were €152.3 million, consisting of 2% share in the total exports, leading to a further increase in the trade deficit of 15.5% on an annual basis.

In terms of trading regions, the EU remains the leading trade partner of North Macedonia, with an average share of 62.2% of total trade from 2015 to 2021. The share of exports directed to EU countries (mainly to the EU's largest economy, Germany) in this period increased by 1.3%, while imports from the EU decreased by 6.1%. Meanwhile, the share of trade with Western Balkan countries amounted to an average of 10.4% of total trade from 2015 to 2021. In 2021, there were no major changes in the direction of trade. Trade with EU member states accounted for 59.2% of total trade with 77.3% share of EU directed exports and 46.2% accounting for imports. Germany remains North Macedonia's most important export partner with 46.7% of total exports in 2021 (44.9% in the first eleven months of 2022), while the largest share of the imports comes from the UK accounting for 17.7% during 2021 (15.9% in the first eleven months of 2022). This also remains relevant in the first eleven months of 2022, with the share of EU directed exports equaling 78.3% of total exports and the share of imports from EU amounting to 46.7% of total imports.

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 €201.4 million, reflecting global uncertainty surrounding COVID-19 and the risk aversion of foreign investors. In 2021, FDI resumed, reporting €470 million, which largely reflects equity and reinvested earnings.

In recent years, the TIDZs have been a key part of the Government's efforts to increase levels of FDI. See "*Economy of North Macedonia—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 2021 averaged approximately 50.2%, reaching a high of 53.9% of GDP in 2021. 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							For the nine months ended 30 September
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Annual FDI flows(1,2,3)								
in € millions..................	216.7	338.4	181.7	614.1	398.8	201.4	470.5	528.3
as % of GDP.................	2.4	3.5	1.8	5.7	3.5	1.9	4.0	3.8
FDI stock(1,3)								
in € millions..................	4,400.1	4,657.3	4,697.8	5,307.0	5,704.1	5,851.66	6,298.1	—
as % of GDP.................	48.5	48.2	46.8	49.4	50.6	53.9	53.9	—

Source: NBRNM.

Notes:

(1) Provisional data for 2021. 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.

In 2021, FDI stock was concentrated in manufacturing (representing 34.8% of total FDI stock for the year), financial services (21.6%) 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**	**2020**	**2021**
				(€ million)			
Greenfield investments.	1,107.7	1,275.6	1,330.2	1,567.6	1,704.4	1,609.2	1,565.0
Other FDI	3,292.4	3,381.7	3,367.6	3,739.4	3,999.7	4,242.5	4,733.1
Total FDI.....................	4,400.1	4,657.3	4,697.8	5,307.0	5,704.1	5,851.7	6,298.1
Share of greenfield investment in total FDI (in %)...........................	25.2	27.4	28.3	29.5	29.9	27.5	24.8

Source: NBRNM.

Foreign Direct Investment by Country

The seven largest investors in North Macedonia, as measured by stock of FDI, were Austria, Greece, Netherlands, Germany, Switzerland, the UK and Turkey as at 31 December 2021. 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

For the year ended 31 December

Country	**2015**		**2016**		**2017**		**2018**		**2019**		**2020**		**2021**	
	(€ millions)	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent*	*(€ 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	815.8	13.9	912.7	14.5
Bulgaria……………………………………	130.3	3.0	148.0	3.2	150.4	3.2	163.1	3.1	193.6	3.4	214.1	3.7	244.0	3.9
Croatia……………………………………	92.9	2.1	93.8	2.0	63.6	1.4	67.7	1.3	73.3	1.3	64.3	1.1	73.2	1.2
Cyprus……………………………………	54.4	1.2	162.9	3.5	164.2	3.5	90.9	1.7	95.0	1.7	112.6	1.9	104.7	1.7
France……………………………………..	41.0	0.9	43.9	0.9	43.0	0.9	57.0	1.1	4.1	0.1	7.4	0.1	12.6	0.2
Germany………………………………….	190.7	4.3	248.2	5.3	273.0	5.8	320.8	6.0	366.7	6.4	386.0	6.6	470.8	7.5
Greece…………………………………….	477.3	10.8	463.4	10.0	473.9	10.1	488.3	9.2	518.3	9.1	548.8	9.4	612.1	9.7
Hungary…………………………………..	226.5	5.1	209.5	4.5	213.5	4.5	213.8	4.0	206.8	3.6	191.8	3.3	178.7	2.8
Italy……………………………………….	94.2	2.1	107.6	2.3	105.0	2.2	122.7	2.3	139.5	2.4	135.7	2.3	148.8	2.4
Luxembourg………………………………	38.2	0.9	36.8	0.8	55.8	1.2	87.8	1.7	91.4	1.6	53.6	0.9	64.6	1.0
Netherlands……………………………….	960.0	21.8	423.3	9.1	375.3	8.0	426.1	8.0	398.3	7.0	508.3	8.7	503.2	8.0
Serbia……………………………………..	84.7	1.9	93.0	2.0	80.7	1.7	88.3	1.7	98.4	1.7	0.0	0.0	0.0	0.0
Slovenia…………………………………..	375.0	8.5	374.5	8.0	323.9	6.9	362.9	6.8	397.3	7.0	109.4	1.9	115.5	1.8
Switzerland……………………………….	152.1	3.5	179.6	3.9	184.4	3.9	176.3	3.3	182.9	3.2	403.5	6.9	459.9	7.3
Turkey…………………………………….	214.6	4.9	247.8	5.3	252.3	5.4	283.9	5.3	344.5	6.0	223.7	3.8	273.9	4.3
United Kingdom………………………….	135.0	3.1	519.4	11.2	531.6	11.3	739.6	13.9	659.9	11.6	376.5	6.4	423.4	6.7
Others……………………………………..	608.6	13.8	737.9	15.8	770.5	16.4	930.7	17.5	1,162.4	20.4	759.31	13.0	652.17	10.4
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	5,851.7	100.0	6,298.1	100.0

Source: NBRNM.

Foreign Direct Investment in North Macedonia (flow) – by country

Country	For the year ended 31 December														For the nine months ended 30 September	
	2015		2016		2017		2018		2019		2020		2021		2022	
	(€ millions)	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ millions)*	*(Share in percent)*	*(€ 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	34.2	17.0	101.48	21.6	66.0	12.5
Bulgaria	-0.4	-0.2	17.9	5.3	-11.8	-6.5	11.5	1.9	23.5	5.9	21.5	10.6	31.3	6.7	21.8	4.1
Croatia	-3.0	-1.4	2.5	0.7	-13.0	-7.1	-12.9	-2.1	3.1	0.8	-6.4	-3.2	1.32	0.3	-2.7	-0.5
Cyprus	0.8	0.4	8.6	2.5	5.1	2.8	-1.0	-0.2	2.7	0.7	7.2	3.6	4.33	0.9	2.0	0.4
France	-157.0	-72.4	3.2	1.0	0.3	0.2	13.7	2.2	-0.8	-0.2	2.7	1.3	5.17	1.1	3.9	0.7
Germany	39.3	18.1	48.5	14.3	47.6	26.2	46.6	7.6	48.6	12.2	20.7	10.3	74.64	15.9	74.5	14.1
Greece	43.8	20.2	-15.7	-4.6	27.1	14.9	23.6	3.8	29.7	7.4	28.9	14.3	66.51	14.1	43.5	8.2
Hungary	-0.6	-0.3	-3.2	-0.9	-0.3	-0.2	-1.9	-0.3	-7.0	-1.8	-13.5	-6.7	-12.2	-2.6	2.2	0.4
Italy	10.4	4.8	20.0	5.9	4.2	2.3	19.3	3.1	16.5	4.1	7.3	3.6	17.69	3.8	23.1	4.4
Luxembourg	-21.7	-10.0	3.8	1.1	22.2	12.2	34.6	5.6	3.1	0.8	-5.6	-2.8	10.34	2.2	1.4	0.3
Netherlands	94.5	43.6	11.0	3.2	-37.6	-20.7	48.9	8.0	-1.8	-0.5	-46.2	-22.9	26.72	5.7	22.9	4.3
Serbia	3.1	1.4	9.3	2.8	1.0	0.6	2.6	0.4	11.8	3.0	4.3	2.1	-0.44	-0.1	-3.6	-0.7
Slovenia	-7.7	-3.5	4.6	1.4	19.4	10.7	37.5	6.1	37.5	9.4	6.8	3.4	60.48	12.9	11.8	2.2
Switzerland	3.5	1.6	18.2	5.4	25.1	13.8	-12.3	-2.0	-13.5	-3.4	4.5	2.2	-2.9	-0.6	-32.1	-6.1
Turkey	27.1	12.5	33.0	9.7	6.6	3.6	33.9	5.5	55.5	13.9	32.3	16.0	54.22	11.5	87.1	16.5
United Kingdom	-37.6	-17.4	50.3	14.9	22.7	12.5	204.8	33.3	-78.7	-19.7	120.7	59.9	-79.7	-16.9	-51.5	-9/7
Others	204.4	94.3	91.4	27.0	33.5	18.4	115.9	18.9	237.4	59.5	-17.8	-8.8	111.51	23.7	257.9	48.8
Total	216.7	100.0	338.4	100.0	181.7	100.0	614.1	100.0	398.8	100.0	201.4	100.0	470.5	100.0	528.3	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

Stock of Direct Investments in Republic of Macedonia - by activity, 2015 -2021	**2015**		**2016**		**2017**		**2018**		**2019**		**2020**		**2021**	
	(€ 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)*	*(€ 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	84.2	1.4	120.5	1.9
Mining and quarrying............................	119.4	2.7	116.7	2.5	77.0	1.6	142.6	2.7	152.5	2.7	214.1	3.7	202.6	3.2
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	2,125.7	36.3	2,191.1	34.8
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	452.8	7.7	560.8	8.9
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	5.5	0.1	2.5	0.0
Construction……………………………..	231.2	5.3	337.6	7.2	371.0	7.9	376.5	7.1	421.6	7.4	396.7	6.8	405.8	6.4
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	2,572.8	44.0	2,814.8	44.7
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	732.3	12.5	812.4	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	47.8	0.8	55.9	0.9
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	38.9	0.7	45.2	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	179.9	3.1	198.4	3.1
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	1,222.8	20.9	1,362.5	21.6
Real estate activities…………………	65.2	1.5	67.7	1.5	87.5	1.9	99.1	1.9	124.0	2.2	145.9	2.5	134.3	2.1
Other service activities………………	177.2	4.0	206.5	4.4	190.5	4.1	243.5	4.6	210.7	3.7	205.2	3.5	206.2	3.3
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	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	5,851.7	100.0	6,298.1	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)	As at 31 December							As of 30 Septembe r
	2015	2016	2017	2018	2019	2020	2021	2022(3)
	(€ million)							
General Government.....	2,091.0	2,511.9	2,565.9	2,822.6	2,806.4	3,279.7	3,394.9	3,272.4
Monetary Authorities (NBRM)........................	83.2	83.2	78.2	79.8	81.3	77.4	383.1	974.4
Banks............................	585.9	591.7	562.2	568.4	669.4	717.0	820.8	958.6
Other Sectors	1,845.6	2,077.5	2,098.5	2,274.0	2,422.5	2,404.2	2,537.0	2,810.6
Direct investment:								
Intercompany lending	1,684.7	1,952.2	2,067.6	2,098.9	2,174.8	2,057.8	2,440.9	3,061.4
Gross External Debt ...	6,290.5	7,216.6	7,372.5	7,843.7	8,154.4	8,536.1	9,576.6	11,077.3
of which:								
Public debt	2,933.7	3,445.3	3,461.8	3,756.2	3,836.6	4,301.5	4,802.0	5,344.0
Private debt	3,356.9	3,771.2	3,910.7	4,087.5	4,317.8	4,234.6	4,774.6	5,733.3

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 June
	2015	2016	2017	2018	2019	2020	2021	2022(3)
	(% of GDP)							
General Government.....	23.0	26.0	25.6	26.3	24.9	30.2	29.0	23.5
Monetary Authorities (NBRM)........................	0.9	0.9	0.8	0.7	0.7	0.7	3.3	7.0
Banks............................	6.5	6.1	5.6	5.3	5.9	6.6	7.0	6.9
Other Sectors	20.3	21.5	20.9	21.2	21.5	22.2	21.7	20.2
Direct investment:								
Intercompany lending	18.6	20.2	20.6	19.5	19.3	19.0	20.9	22.0
Gross External Debt ...	69.3	74.7	73.4	73.0	72.4	78.7	81.9	79.4
of which:								
Public debt	32.3	35.7	34.5	35.0	34.1	39.6	41.1	38.3
Private debt	37.0	39.1	39.0	38.0	38.3	39.0	40.8	41.1

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 2022 projected GDP.

As at 30 September 2022, the gross external debt of North Macedonia amounted to 79.4% of 2022 GDP, representing an increase of 9.5% of GDP from 31 December 2014. External debt increased because of the rise in public debt by 5.1% of GDP (including a 5.1% increase of repo-related debt) and an increase of 4.4% of GDP in the private sector external debt.

Private foreign debt

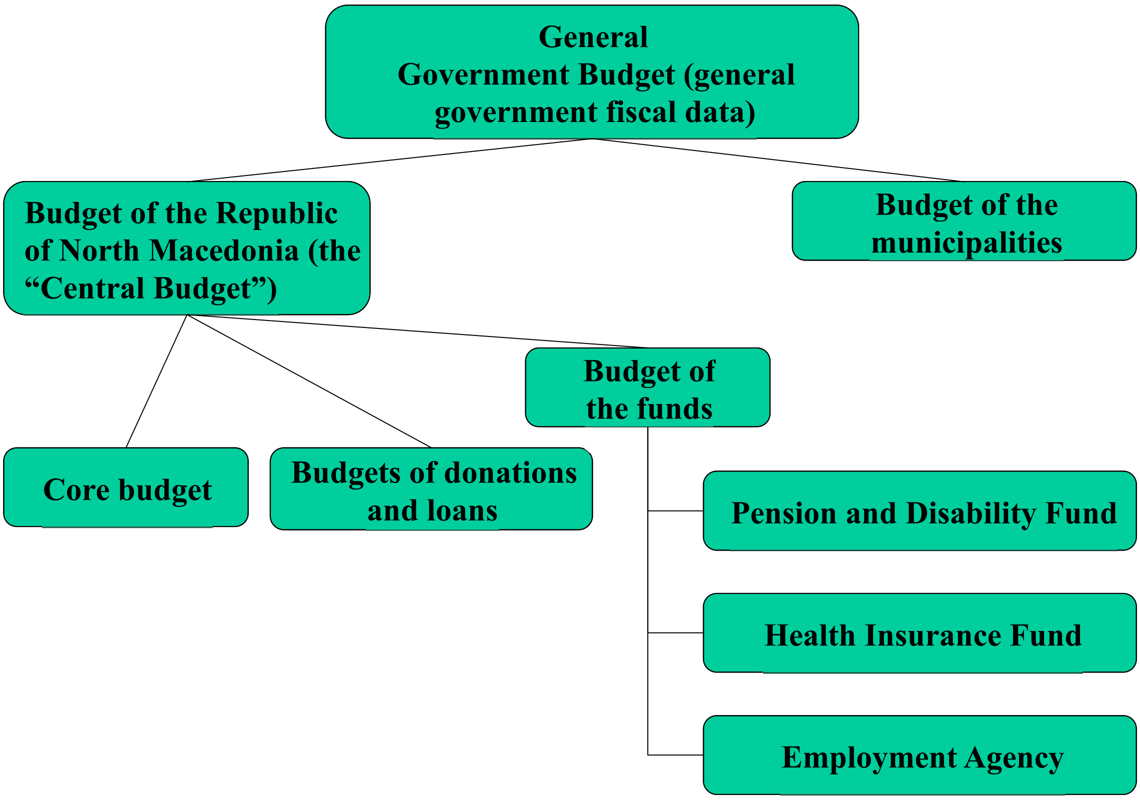
As at 30 September 2022, private foreign debt was €5.7 billion, or 41.1% of 2022 GDP and 51.8% of the gross external debt. By 30 September 2022, in nominal terms, private foreign debt expanded by 70.8% compared to its level at the end of 2015, and as a percentage points of GDP, it increased by 4.1% During this period, the share of inter-company debt, which is generally considered less risky than financial loans, increased by 3.4% of GDP, reflecting the activity of new and existing foreign investors. Private foreign debt in the remainder of the corporate sector increased by 0.7% of GDP, primarily reflecting the currency and deposit short-term debt, which resulted in a higher foreign indebtedness of the banking system in relative terms. The rest of the private sector, namely the non-FDI related company debt, decreased. Overall, the level of foreign indebtedness of the private sector remains relatively low. Moreover, intercompany lending and trade credits comprised approximately 72.2% of private foreign debt at the end of September 2022.

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 "*–2022 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, 2020, 2021 and 2022.

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.

2016-2022 results

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 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, childcare, 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 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, childcare, culture and firefighting protection.

In 2017, MKD 8.4 billion were allocated to interest payments and MKD 17.6 billion 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 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 was 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, childcare, culture and firefighting protection.

In 2018, MKD 7.7 billion were allocated to interest payments and MKD 28.1 billion 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 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 licences, 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, childcare, culture and firefighting protection.

In 2019, MKD 8.1 billion were allocated to interest payments and MKD 16.1 billion 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 minimise 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 amortise 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 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 managing 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.

In 2021, total budget revenues amounted to MKD 218.0 billion, or 98.0% of those projected in the 2021 Budget. Budget revenues were 15.0% higher compared to 2020. Within budget total revenues, MKD 196.3 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 (57.7%), followed by social contributions (32.3%), non-tax revenues (6.3%), donations (2.7%) and capital revenues (1%). The Republic realised tax revenues of MKD 125.7 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 46.3%, which represented an increase of 24.1% compared to 2020. The most significant increase in tax revenues related revenues from import duties, which were 25.9% higher than in 2020, followed by revenues from other taxes, which increased by 25.7%, revenues from excises, which increased by 13.8%, revenues from personal income tax, which increased by 10.3%, and profit tax revenues, which increased by 3.6%. Revenues from social security contributions increased by 6.1% compared to 2020, amounting to 102.1% of the 2020 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 13.9 billion and MKD 1.9 billion, respectively. Donation based revenues amounted to MKD 5.9 billion.

Total 2021 budget expenditures amounted to MKD 256.9 billion, or 95.6% of the annual projection, which represented an increase of 5.5% compared to 2020. Salaries and allowances accounted for MKD 31 billion in 2021, representing an increase of 4.1% compared to 2020. Expenditures related to goods and services were 30.4% higher than in 2020, amounting to MKD 20.1 billion, while transfers were 0.5% lower, accounting for MKD 173.3 billion. MKD 62.3 billion was allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 9.2 billion. The Government allocated MKD 2.8 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 12.1 billion. Funds to finance health services and benefits amounted to MKD 35.0 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 21.2 billion to finance the competences transferred to municipalities in the fields of education, childcare, culture and firefighting protection. In 2021, MKD 9.1 billion were allocated to interest payments and MKD 42.6 to the repayment of principal. Capital expenditures in 2021 amounted to MKD 23.4 billion, representing a 45.3% increase compared to 2020.

In the period from 1 January to 31 December 2021, the Central Government Budget deficit amounted to MKD 38.9 billion, or 5.4% of GDP.

In the period from 1 January to 30 November 2022, total budget revenues amounted to MKD 219.3 billion, or 89.2% of the annual projection. Total budget revenues were 11.3% higher compared to the same period 2021. Within total budget revenues, MKD 198.7 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 (59.1%), followed by social contributions (31.5%), non-tax revenues (7.1%), donations (1.3%) and capital revenues (1%). The Republic realised tax revenues of MKD 129.7 billion, in line with the annual projection. Tax revenues on the basis of VAT accounted for the largest part of total tax revenue, amounting to 46%, which represented an increase of 12.4% compared to the same period in 2021. The most significant increase in tax revenues were from profit tax, which were 44.9% higher than same period in 2021, followed by revenues from import taxes, which increased by 18.4%, revenues from PIT, which increased by 16.2%, and from other tax revenues, which increased by 3.9%. Only revenues from excises were 1.3 lower compared with the same period in 2021. Revenues from social security contributions increased by 9% compared to the same period in 2021, amounting to 87.8% of the 2022 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 15.6 billion and MKD 2.2 billion, respectively. Donation based revenues amounted to MKD 2.8 billion.

In the period from 1 January to 30 November 2022, budget expenditures amounted to MKD 243.1 billion, or 84.3% of the annual projection, which represented an increase of 7.1% compared to the same period in 2021. Salaries and allowances accounted for MKD 29.2 billion, representing an increase of 3.1% compared to the same period in 2021. Expenditures related to goods and services were 4% higher than in same period in 2021, amounting to MKD 17.1 billion, while transfers were 8% higher, accounting for MKD 168.5 billion. MKD 61.5 billion was allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 9.7 billion. The Government allocated MKD 2.4 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 11.4 billion. Funds to finance health services and benefits amounted to MKD 33.4 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 21.1 billion to finance education, childcare, culture and firefighting protection in the municipalities. In the period from 1 January to 30 November 2022, MKD 8.8 billion was allocated to interest payments and MKD 7.6 to the repayment of principal. Capital expenditures in the period from 1 January to 30 November 2022 amounted to MKD 19.6 billion, representing a 11.3% increase compared to the same period in 2021.

In the period from 1 January to 30 November 2022, the Central Government Budget deficit amounted to MKD 23.8 billion, or 2.86% of GDP.

2022 Central Budget

The 2022 budget has four main goals:

- improve health and protect lives of the citizens;
- economic recovery and accelerated growth;
- fiscal sustainability; and
- consistent access to financing of the basic functions of the state and support for the reforms in the judiciary and the Euro-Atlantic integration (EU and NATO).

Fiscal consolidation and redesigned budget policy, through increased capital investments are key elements of fiscal policy to support macroeconomic stability, accelerate economic growth, and thus strengthen the growth potential of the domestic economy.

The Budget for 2022 aims to keep capital expenditures higher than the budget deficit, (i.e. it will be borrowed only to finance investment projects). The realisation of the budget will be guided by the principle of value for money ("value for money"), and care will be taken to use the citizens' money where they give the greatest effects in achieving the goals of higher quality of life.

The total revenues of the Budget for 2022 are expected to increase to 7.4% or MKD 238.9 billion compared to 2021, while the expenditures are expected to increase by 1.4% or 272.4 billion compared to 2021.

Budget deficit is set at 4.3% of GDP or MKD 33.5 million.

With regard to revenue, measures and activities are planned in order to: improve the existing tax regulations; reduction of tax evasion; introduction of advanced technologies; modernisation and automation of work processes; strengthening the capacities of revenue collection institutions; increased and more efficient collection of tax revenues; as well as strengthening institutional coordination.

Tax revenues for 2022 are expected to increase by 10% or MKD 136.5 billion compared to 2021. In the structure of the planned tax revenues, the largest share has the value added tax, 45.6%, while the excises account for 21.2%.

Social contributions as source revenues of the Pension and Health Insurance Funds and the Employment Agency are expected to increase by 7.5% or MKD 74.4 billion compared to 2021. The total expenditures are expected to increase to MKD 272.4 billion, compared to 2021.

Current expenditures are expected to decrease by MKD 234.2 billion compared to 2021, and are intended for regular payment of salaries, pensions, guaranteed minimum income and other social benefits, subsidies in agriculture, support for small and medium enterprises, the health sector, as well as subsidising innovative activities.

Within this framework, expenditures on goods and services are expected to decrease by 6% or MKD 20.6 billion compared to 2021, as a result of fiscal consolidation and minimisation. of operating expenditures through the Budget.

Current transfers and subsidies are expected at MKD 170.8 billion, with MKD 64.4 billion intended for payment of pensions. At the same time, the transfers to the local self-governance units are planned in the amount of MKD 22.3 billion and are intended for financing the transferred competencies of the municipalities and a grant to the municipalities on the basis of a planned increase of 4.5% to 5% VAT revenues. On this basis, funds of MKD 2.7 billion are expected, an MKD 500 million or 21% increase compared to 2021.

The funds from the additional increase of the VAT percentage for the municipalities will be distributed in two new funds/parts - Performance Fund/Part and Equalisation Fund/Part. The Performance Fund/Part will reward the municipalities that have better collection of local revenues, while the Equalisation Fund/Part will reduce the differences in accordance with the fiscal capacity of the municipalities.

2023 Budget of the Republic of North Macedonia

The budget for 2023 intends to mitigate the consequences of the energy crisis, ensure smooth financing of Euro-Atlantic integrations and meet NATO standards, and lay the foundation for economic recovery and the acceleration of economic growth. This budget is designed to meet the goals of fiscal consolidation and sustainability.

The Republic also remains committed to fiscal consolidation and is gradually reducing the budget deficit, with the goal of bringing it below 3% in the medium-term (below the Maastricht criterion). The planned fiscal consolidation includes improving the collection of budget revenues through measures to reduce the gray economy and measures to prevent and suppress corruption, reducing and restructuring budget expenditures by cutting non-priority and non-essential costs and revising the methodologies for transfers and subsidies and changes in the sources of financing the budget deficit.

The budget intends to improve the management of public finances through redesigning the structure of public finances with an increased participation of capital expenditures, investments in competitiveness, digitisation, support of the private sector and the improvement of the investment climate, and by taking actions to encourage economic activity and the acceleration of economic growth through structural reforms and measures.

The budget for 2023 ensures that capital expenditures are higher than the budget deficit. The implementation of the budget will be managed according to the value for money principle, whereby money will be used where it gives the greatest effects in achieving the goals for a higher quality of life.

The management of public finances is a particular challenge in the turbulent economic environment in Europe. The situation has worsened with the energy crisis and the current war in Ukraine, displacing almost all economies from their pre-crisis growth trajectory. There is still uncertainty at the global level regarding the duration and intensity of this non-economic shock.

Revenues

The total revenues of the Budget of the Republic for 2023 are planned at the level of MKD 282.1 billion and they are 14.8% higher than in 2022.

Budget revenue projections for 2023 are based on the following assumptions:

- realisation of income in the current year 2022,
- expectations for economic growth and
- improving the efficiency and effectiveness of the public revenue collection system.

In order to achieve these revenue projections, the measures and activities planned include: improving the existing tax regulation; reduction of tax evasion; introduction of advanced technologies; modernisation and automation of work processes; strengthening the capacities of institutions for revenue collection; increased and more efficient collection of tax revenues; as well as strengthening institutional coordination.

The total tax revenues, which include revenues based on profit tax, personal income tax, value added tax, excise duties, import duties and other tax revenues and the budget beneficiaries' own revenues, are projected in the budget for 2023 in the amount of MKD 162.6 billion, which is 13.6% more than the amount of revenues planned with the Budget for 2022. These revenues are estimated to comprise 17.7% of GDP for 2023, which is approximately equal to the previous year.

The projection of total tax revenues for 2023 also includes the expected fiscal effects from the implementation of tax reforms in value added tax, profit tax and personal income tax in the total amount of MKD 4.6 billion. These revenues from tax reforms comprise 3.8% of projected revenues, and 0.5% of GDP for 2023. The largest share is the expected tax revenues from the implementation of the reforms in value added tax (MKD 2.7 billion), followed by the revenues from the reforms in profit tax (MKD 1.2 billion), and in personal income tax (MKD 0.7 billion).

Tax revenues, as source revenues of the budget, comprise 58.6% of total revenues for 2023, which is 0.4% higher than in 2022. In the budget for 2023, a higher level of realisation is projected for all types of taxes compared to the Budget for 2022.

The projected growth of tax revenues is due to the increase in the tax base for certain types of taxes as a result of an increase in consumption, an increase in the average salary, higher profitability of companies, expectations for improved collection of tax revenues due to the reduction of the gray economy, strengthened tax control and simplification and digitisation of tax procedures, and further realisation of the goals and priorities of the Tax System Reform Strategy 2021-2027.

In the budget for 2023, it is planned that MKD 19.9 billion will be generated based on non-tax revenues (administrative fees, concessions and other non-tax revenues) and MKD 2.8 billion based on capital revenues (the sale of agricultural land and social apartments, as well as on the basis of a planned dividend from AD Makedonski Telekom).

Social contributions as source income of the pension and health insurance funds and the Employment Agency are planned in the amount of MKD 88.1 billion or 12.1% higher than in 2022.

In the course of 2023, on the basis of donations, MKD 8.7 billion are planned, which the budget beneficiaries are planned to realise on their own income accounts for specific projects, as well as the withdrawals from the pre-accession funds of the EU. The planned amount includes a donation from the European Commission intended for the financing of measures in the energy sector.

Expenditures

Total expenditures are planned at the level of MKD 324.8 billion, or 12.6% higher than in 2022.

Budget expenditure projections for the coming year are prepared based on the following assumptions:

- compliance of the revenue projection with the planned movements in the economy;
- ensuring fiscal consolidation, economic recovery and accelerated growth;
- regular and uninterrupted execution of all legal obligations;
- continuity in implementing a disciplined budget policy and strengthened control of public spending;
- support of the domestic economy, the private sector and citizens;

- increased and accelerated implementation of infrastructure projects, attraction of foreign investments and innovation of domestic companies; and
- the priority for the integration processes of the Republic in the EU and the obligations arising from membership in NATO and others.

Current expenditures for 2023 are planned in the amount of MKD 276.0 billion or 7.7% more compared to 2022.

Within the framework of current expenses, the following are foreseen:

- Expenses for the payment of wages are projected to be MKD 34.9 billion, 5% higher than 2022.
- Expenditures for goods and services in 2023 are projected to be at the same level as in 2022, in the amount of MKD 23.6 billion. Despite price pressures, the planned level of the category for goods and services aims to ensure smooth functioning of institutions and provide additional funds to finance the increased costs of energy and transport. The planned level of this expenditure category is based on the consolidation and rationalisation of operating expenses among budget users.
- Current transfers and subsidies are planned to be MKD 204.6 billion, a 7.8% or MKD 14.8 billion increase compared to 2022, and refer to:
    - Social transfers, which are projected to be MKD 144.8 billion, namely:
        - MKD 75 billion are planned for pension payments;
        - funds in the amount of MKD 12.5 billion, intended for payment of benefits for social protection;
        - funds in the amount of MKD 1.5 billion, planned for unemployment compensation,
        - MKD 1.9 billion for the implementation of policies for employment , which are aimed at creating programmes, measures and services for employment, the creation of new jobs, employment of young people, support for the employment of persons with disabilities, enabling the users of guaranteed minimum assistance (GMP), whereby the able-bodied members of the household are included in the active employment programmes and measures; and
        - MKD 42.1 billion to health care through the Health Insurance Fund. Most of the planned funds are intended for financing health services, but also for payment of obligations of public health institutions.
    - Subsidies for dealing with crisis situations intended to supply the necessary energy and stimulate the domestic production of electricity, with the aim of mitigating the effects of the growth of the market price of electricity.
    - Agricultural subsidies to provide support to the agricultural sector, with the aim of increasing domestic plant and animal production, stimulating yields, increasing productivity and competitiveness, as well as amortising the price pressures of basic food products through the Intervention Fund.
    - Subsidies for the private sector, intended to support small and medium-sized enterprises, increase competitiveness, innovative activity, technological development and research, new investments, support for exports and the conquest of new markets and support for the creation of new jobs.

Attention is also paid to gender-responsive budget policies, among other things, through financial support of women's entrepreneurship.

- o Transfers to local governments are planned in the amount of MKD 26.7 billion intended for financing the transferred competences of the municipalities and subsidy to the municipalities.

Based on the planned increase in the percentage of VAT revenues distributed to the municipalities from 4.5% to 5.5%, an additional increase of the general subsidy to the municipalities by MKD 1.2 billion has been budgeted for, with the aim of increasing the fiscal capacity of the municipalities. The funds from the additional increase in the percentage of VAT for the municipalities will be distributed in the Performance Fund and the Unification Fund.

The additional increase of MKD 2.4 billion is intended to finance the increased salaries by 15% in primary and secondary education at the local level and 15% for teachers and caregivers in kindergartens, as well as to finance the increased costs for transport and electricity.

Central Budget components

The following table sets out principal revenue and expenditure components of the Central Government Budget for the periods indicated:

BUDGET 2017-2027

	2017	2018	2019	2020	2021	Budget 2022	Revised Budget 2022	Budget Execution 2022	Budget 2023	2024	2025	2026	2027
TOTAL REVENUES	**179.706**	**188.513**	**203.946**	**189.554**	**218.021**	**238.900**	**245.758**	**243.033**	**282.052**	**298.556**	**319.558**	**341.779**	**366.547**
Tax Revenues and contributions	**157.537**	**170.991**	**178.894**	**173.464**	**196.317**	**210.829**	**221.770**	**220.186**	**250.688**	**268.694**	**287.898**	**308.641**	**331.885**
Tax on Income, Profit and Capital gains	104.647	114.456	116.728	106.900	125.690	136.458	143.173	142.567	162.600	175.030	188.304	202.742	219.278
PIT	15.263	17.559	18.706	18.625	20.552	21.051	22.637	23.852	26.500	27.795	29.789	32.318	35.061
CIT	11.353	14.745	11.554	10.497	10.871	12.312	13.390	15.776	14.700	16.740	17.848	20.197	22.699
VAT(net)	47.870	49.254	52.059	46.893	58.194	62.240	68.442	64.764	78.500	82.856	89.496	95.621	103.621
Excises	23.093	25.092	26.087	22.450	25.548	28.778	26.910	25.483	29.200	32.648	35.138	37.329	39.531
Customs Duties	5.175	5.604	6.033	6.738	8.480	8.983	8.917	9.973	10.700	11.691	12.533	13.577	14.766
Other taxes	463	520	674	510	641	738	678	670	730	1.111	1.200	1.300	1.200
Tax Revenues (SRA)	1.430	1.682	1.615	1.187	1.404	2.356	2.199	2.049	2.270	2.189	2.300	2.400	2.400
Social Contributions	52.890	56.535	62.166	66.564	70.627	74.371	78.597	77.619	88.088	93.664	99.594	105.899	112.607
Pensions	35.604	37.981	41.921	45.044	47.819	50.305	53.411	52.509	60.384	64.297	68.465	72.903	77.630
Unemployment	2.261	2.426	2.622	2.757	2.918	3.075	3.084	3.214	3.392	3.596	3.812	4.040	4.283
Health	15.025	16.128	17.623	18.763	19.890	20.992	22.102	21.896	24.312	25.771	27.317	28.956	30.694
Non-Tax Revenues	**13.429**	**12.271**	**18.800**	**11.173**	**13.882**	**19.171**	**17.043**	**17.209**	**19.894**	**20.932**	**22.130**	**22.282**	**22.932**
Capital Revenues	**1.316**	**2.197**	**2.369**	**1.846**	**1.928**	**3.330**	**2.180**	**2.273**	**2.800**	**3.530**	**3.530**	**3.530**	**3.730**
Grants	**7.424**	**3.054**	**3.883**	**3.071**	**5.894**	**5.570**	**4.765**	**3.365**	**8.669**	**5.400**	**6.000**	**7.326**	**8.000**
TOTAL EXPENDITURES	**196.562**	**200.070**	**217.447**	**243.421**	**256.906**	**272.428**	**288.494**	**278.518**	**324.810**	**332.192**	**350.531**	**375.299**	**399.992**
Current Expenditures	**176.699**	**187.923**	**199.634**	**227.306**	**233.498**	**234.192**	**256.385**	**249.881**	**276.059**	**282.445**	**297.411**	**317.061**	**337.725**
Wages and allowances	26.204	26.355	27.754	29.775	31.010	32.679	33.234	32.159	34.880	36.281	37.781	39.481	41.085
Goods and services	15.344	14.554	16.265	15.423	20.110	20.656	23.106	20.904	23.631	24.153	24.945	25.845	26.200
Transfers to Local SG	17.014	18.057	19.097	21.373	21.218	22.321	23.150	23.384	26.687	28.210	28.971	29.870	32.737
Transfers to Local SG Units/VAT	2.067	2.154	2.216	2.342	2.238	2.711	2.619	2.910	3.764	4.710	4.971	5.370	5.737
Transfers to Local SG Units	14.947	15.903	16.881	19.031	18.980	19.610	20.531	20.474	22.923	23.500	24.000	24.500	27.000
Subsidies and transfers	15.006	20.542	20.285	34.905	30.635	23.967	33.749	32.536	32.987	26.975	28.877	31.837	34.973
Social Transfers	94.743	100.723	108.131	117.799	121.439	124.497	132.924	131.758	144.951	151.192	160.061	169.097	178.502
Pensions	51.822	54.232	56.320	60.216	62.289	64.350	67.665	67.291	75.000	78.750	82.687	87.648	92.907
Transitional costs	6.262	7.011	8.859	8.608	9.233	9.870	10.559	10.827	11.800	12.500	12.500	13.000	13.500
Unemployment benefits	703	1.181	1.472	1.576	1.388	1.400	1.400	1.282	1.526	1.400	1.400	1.400	1.400
Active measures for employment	908	1.062	1.267	1.359	1.365	1.818	1.869	1.420	2.077	2.111	2.277	2.455	2.667
Social benefits	8.008	8.290	9.416	11.347	12.120	11.009	13.223	12.505	12.484	13.305	14.905	16.005	17.005
Health care	27.040	28.947	30.797	34.693	35.044	36.050	38.208	38.157	42.064	43.126	46.292	48.589	51.023
Interest Payments	8.388	7.692	8.102	8.031	9.086	10.071	10.221	9.140	12.923	15.634	16.776	20.931	24.228
Capital expenditures	**19.863**	**12.147**	**17.813**	**16.115**	**23.408**	**38.236**	**32.109**	**28.637**	**48.751**	**49.747**	**53.120**	**58.238**	**62.267**
Budget balance	**-16.856**	**-11.557**	**-13.501**	**-53.867**	**-38.885**	**-33.529**	**-42.736**	**-35.485**	**-42.759**	**-33.636**	**-30.973**	**-33.520**	**-33.445**
Budget balance, % of GDP	**-2,7**	**-1,7**	**-2,0**	**-8,1**	**-5,5**	**-4,3**	**-5,3**	**-4,3**	**-4,6**	**-3,4**	**-3,0**	**-3,0**	**-2,8**
Primary Budget balance	-1,4	-0,6	-0,8	-6,9	-4,2	-3,0	-4,0	-3,2	-3,2	-1,8	-1,4	-1,1	-0,8
Budget balance	-2,7	-1,7	-2,0	-8,1	-5,5	-4,3	-5,3	-4,3	-4,6	-3,4	-3,0	-3,0	-2,8

Source: Ministry of Finance

The following table shows the functional classification of budget expenditure and outflow for 2022:

Code	Description	Budget 2022 (MKD million)	% of total	Revised Budget 2022 (MKD million)	% of total	Budget 2023 (MKD million)	% of total
701	General Public Services	24,817	8.7%	30,540	10.2%	36,276	9.6%
702	Defence	12,665	4.5%	12,185	4.1%	15,600	4.1%
703	Public Order and Safety	18,169	6.4%	18,006	6.0%	19,272	5.1%
704	Economic Affairs	48,401	17.0%	50,332	16.8%	105,618	28.0%
	General economic, commercial and labour related affairs	5,038	1.8%	5,239	1.7%	5,482	1.5%
	Agriculture, forestry, fishing and hunting	7,467	2.6%	10,746	3.6%	10,677	2.8%
	Fuel and Energy	845	0.3%	875	0.3%	482	0.1%
	Mining, craftsmanship and construction	523	0.2%	466	0.2%	466	0.1%
	Transportation	10,398	3.7%	6,434	2.1%	18,933	5.0%
	Communication	1,081	0.4%	1,084	0.4%	1,099	0.3%
	Other industries	493	0.2%	519	0.2%	619	0.2%
	Other economic affairs	22,556	7.9%	24,967	8.3%	67,860	18.0%
705	Environment protection	3,604	1.3%	3,312	1.1%	2,445	0.6%
706	Housing and community amenities	4,338	1.5%	4,929	1.6%	3,532	0.9%
707	Health	42,561	15.0%	44,964	15.0%	46,740	12.4%
708	Recreation, Culture and Religion	4,886	1.7%	4,890	1.6%	4,712	1.3%
709	Education	30,458	10.7%	30,987	10.3%	33,418	8.9%
710	Social Protection	94,101	33.1%	100,128	33.3%	109,310	29.0%
	Total	284,001	1.0	300,272	1.0	376,925	1.0

Source: Ministry of Finance

Medium-term budgetary outlook 2023-2027

The Republic's fiscal strategy comprises medium-term guidelines, goals for the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections. The fiscal strategy reflects the medium-term fiscal goals and strategic priorities of the Government.

The Revised Fiscal Strategy 2023-2025 (Outlook to 2027)

The Ministry of Finance is currently preparing the revised fiscal projections with a 5-year perspective.

The commitment to macroeconomic stability and fiscal consolidation remains in the medium- and long-term projection, in order to maintain favorable conditions for accelerated economic development. Further support to the economy is expected to continue, with investments in infrastructure projects, redesign of the structure of public finances through increased capital expenditures, as well as strengthening the process of planning, executing and reporting on public finances.

Phased fiscal consolidation, with reduced budget deficit as a percentage share in GDP expected to be 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026 and 2.8% in 2027, as well as the improved structure of public finances with a significant share of capital expenditures set at 5% in GDP on an annual basis, are key elements of public finances in the medium-term. In the medium-term, basic features of the fiscal policy are a redesigned structure of public expenditures, disciplined budget spending and strengthening of the cycle of public investments. This approach to public spending with simultaneous improved collection of public revenues ensures a gradual reduction in the level of the budget deficit on an annual basis.

In the medium-term, despite the present risks and uncertainty, the fiscal policy intends to continue towards further consolidation, restructuring and optimisation of public revenues and expenditures by gradually reducing the budget deficit and public debt, encouraging economic activity through capital expenditures and infrastructure investments, and improving the conditions for doing business and creating new jobs.

The main priorities for the tax system are increased fairness in taxation, increased efficiency and effectiveness of revenue collection, enhanced tax transparency, improved quality of services rendered by tax system institutions, by simplifying and speeding up procedures and reducing the administrative burden through many digital services, as well by introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction. The main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on a regular basis.

The expenditure side of the Budget, in the next period, is fully created in terms of achieving the strategic priorities, accelerating the economic growth, and the EU integration process and the obligations deriving from the NATO membership and similar.

Fiscal decentralisation reform offers a systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. Reform rests on three pillars: enhanced fiscal capacity of municipalities and increased municipal revenues, strengthened financial discipline of municipalities, reduced arrears and cost-effective operations, as well as increased transparency and accountability.

In this way, the municipalities are stimulated to realise their own revenues and thus create a basis for additional revenue from the Central Budget, which increases the fiscal capacity of the municipalities in fulfiling their responsibilities. Increased revenues are the basis for financing the competencies related to meeting the needs of citizens. The budget planning of the municipalities is also strengthened, and with the increased transparency in planning and execution, the responsibility of the municipalities also increases.

The public debt management policy is aimed at ensuring the funds necessary to finance the budget deficit and repay the due debt liabilities from the previous years, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

The Fiscal Policy for 2022-2027 reflects the commitment to further strengthening of public finance management and fiscal sustainability, which is to contribute to maintaining macroeconomic stability and gradual fiscal consolidation.

Priorities for the medium-term period will be geared towards coping with the consequences from the health and energy crisis, by scaling up investments through direct support of investment activities of companies, promotion and facilitation of the investment climate, job creation through active employment measures, as well as support and development of micro, small- and medium-sized enterprises. This means that such support will be realised by establishing development funds, innovation support funds, guarantee funds, equity funds, venture capital funds and similar instruments for support of export-oriented companies, small- and medium-sized enterprises, as well as social enterprises. Thereby, public-private partnerships, concessions and other instruments for financing public capital projects are also planned to be put into place, to be coupled by financing private sector projects.

The Government intends to remain committed to fiscal sustainability, supporting the economy with investments in infrastructure projects, redesigning the public finance structure by increasing the share of capital expenditures, as well as strengthening the process of planning, executing and reporting its finances.

The main priorities of the fiscal strategy are the following:

- greater fairness of taxation, in order to ensure that everyone meets their social obligation and pays their fair share of tax;
- increased efficiency and productivity of the tax system for the purpose of improved revenue collection, via more efficient fight against illicit activities and tax evasion, and a strengthened institutional capacity, as well as reduction of the tax arrears;
- increased tax transparency, including an improvement of the exchange of information between tax authorities and other entities, to be, in particular, based on e-services, which will result in enhanced fiscal literacy and increased voluntary compliance;
- improved quality of services rendered by tax system institutions, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitised services, better management of the import-export licences' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax controls; and
- introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction, and discourage them from polluting the environment.

The expenditures within the Budget are aimed at achieving the strategic priorities, accelerating the economic growth and the EU and NATO integration processes.

The Government is committed to redesigning its fiscal policy and has put a plan in place, which is aimed at providing public finance sustainability and economic growth and consists of, among other things, better control of costs and undertaking certain measures related to revenues, expenditures and refinancing.

The table shows the commitment to fiscal consolidation and better budget structure, primarily on the expenditure side, by increasing the share of capital expenditures (at the same time reducing the current expenditures) of the total expenditures.

Structure of the Budget 2018 – 2027

STRUCTURE OF THE BUDGET 2018-2027	2018	2019	2020	2021	Budget 2022	Revised Budget 2022*	Draft Budget 2023*	2024*	2025*	2026*	2027*
Total revenue	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Tax revenues and contributions	**90.7**	**87.7**	**91.5**	**90.0**	**88.2**	**90.2**	**88.9**	**90.0**	**90.1**	**90.3**	**90.5**
Tax revenues	60.7	57.2	56.4	57.7	57.1	58.3	57.6	58.6	58.9	59.3	59.8
Contributions	30.0	30.5	35.1	32.4	31.1	32.0	31.2	31.4	31.2	31.0	30.7
Non-tax revenue	**6.5**	**9.2**	**5.9**	**6.4**	**8.0**	**6.9**	**7.1**	**7.0**	**6.9**	**6.5**	**6.3**
Capital income	**1.2**	**1.2**	**1.0**	**0.9**	**1.4**	**0.9**	**1.0**	**1.2**	**1.1**	**1.0**	**1.0**
Donations	**1.6**	**1.9**	**1.6**	**2.7**	**2.3**	**1.9**	**3.1**	**1.8**	**1.9**	**2.1**	**2.2**
Total expenses	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Current expenditures	**93.9**	**91.8**	**93.4**	**90.9**	**86.0**	**88.9**	**85.0**	**85.0**	**84.8**	**84.5**	**84.4**
Salaries and allowances	13.2	12.8	12.2	12.1	12.0	11.5	10.7	10.9	10.8	10.5	10.3
Goods and services	7.3	7.5	6.3	7.8	7.6	8.0	7.3	7.3	7.1	6.9	6.6
Transfers to LSGUs	9.0	8.8	8.8	8.3	8.2	8.0	8.2	8.5	8.3	8.0	8.2
Subsidies and transfers	10.3	9.3	14.3	11.9	8.8	11.7	10.2	8.1	8.2	8.5	8.7
Social transfers	50.3	49.7	48.4	47.3	45.7	46.1	44.6	45.5	45.7	45.1	44.6
Interest payments	3.8	3.7	3.3	3.5	3.7	3.5	4.0	4.7	4.8	5.6	6.1
Domestic	1.4	1.2	1.1	1.2	1.3	1.3	1.4	1.6	1.7	1.8	2.0
Foreign	2.4	2.6	2.2	2.4	2.4	2.3	2.6	3.1	3.1	3.8	4.0
Capital expenditures	**6.1**	**8.2**	**6.6**	**9.1**	**14.0**	**11.1**	**15.0**	**15.0**	**15.2**	**15.5**	**15.6**

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

The main objectives of the policy aimed at reducing the current expenditures, are:

- increasing the efficiency of the public administration operations by optimising and rationalising the working posts;
- improving efficiency in use of operating resources by planning and executing operating expenditures, reducing the non-productive expenditures, as well as introducing spending standards;
- better quality services at the decentralised competences of the municipalities by redefining the criteria for allocation of funds and more efficient and earmarked use of grant funds;
- ensuring a more positive impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers; and
- reducing poverty by properly targeting the use of social assistance and greater participation on the labour market.

In addition, the Government has put in place a policy aimed at improving the capital expenditure structure and execution. The main objectives of the policy consist of increasing growth potential of the national economy, boosting competitiveness, attracting and encouraging investments by increasing the amount, the quality and the pace of execution of capital expenditures.

Expenditure projections in the for the next medium-term period are prepared on the basis of three key assumptions:

- compliance of the revenue projections with the planned economic activities;
- total budget expenditure projections ensure continuous fiscal consolidation; and
- projected expenditures provide for regular and undisrupted fulfilment of all legal obligations.

The following assumptions are taken into account when forecasting the amount and the structure of current expenditures for the coming period, taking into account regular payment of wages to employees in the public sector, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small- and medium-sized enterprises, as well as subsidising of innovation activities:

- expenditures for payment of wages and allowances, commitment to optimising the public administration continues under the medium-term projections;
- timely payment of pensions and social allowances, reformed social protection system (guaranteed minimum income), to the end of ensuring safe well-being of the beneficiaries of these rights;
- health protection realised through the Health Insurance Fund, mainly pertaining to the financing of health services and measures undertaken in this field, such as capitation increase, availability of pharmaceuticals and similar;
- implementing active employment policies and measures, which will be aimed at creating employment programmes, measures and services to be carried out for the purpose of improving the functioning of the labour market, supporting job creation, as well as employing young persons - youth guarantee;
- ensuring funds for payment of agricultural subsidies, to the end of strengthening and supporting this sector, boosting the export of agricultural products from North Macedonia and conquering new markets; and
- boosting the economic growth and development in the Republic, by enhancing the competitiveness of the private sector via measures for new investments, measures to support the export and conquer new

markets, support to job creation, support to SMEs, innovation activity, technological development and research, as well as encouraging foreign and domestic investments.

In the medium-term period, the focus for the Government's fiscal policy remains on ensuring substantial public investments, improvement of economic perspectives and improved living conditions for the citizens.

To this end, a significant amount of capital investments is through budget funds, including funds under loans extended from international financial institutions and bilateral creditors.

The projected amounts of MKD 48.7 billion for 2023 (5.1% of GDP) is for speeding up the infrastructure projects in different areas of public spending, for instance, investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

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 "*Economy of North Macedonia—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[2], and 100% of the personal income tax of their citizens who earn a living by performing specified crafts.

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.

Starting in 2024, revenues from VAT will be provided in the amount of 6% of the collected VAT realised in the previous fiscal year.

During 2021, the percentage of VAT revenues transferred from the Central Budget to the municipalities in the form of general grants was in line with the previous three years. These VAT revenues were 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 2021, total VAT revenues transferred to the municipalities amounted to MKD 2.2 billion. MKD 2.9 billion was budgeted for VAT revenues for 2022 and MKD 3.8 billion is budgeted for VAT revenues for 2023. During 2021, MKD 19 billion was transferred for block grants. MKD 20.5 billion was budgeted for block grants 2022 and MKD 23.0 billion is budgeted for block grants for 2023.

[2] 3% of the personal income tax from the salary of employees according to settlement of residence and 100% of the personal income tax of persons from salaries who perform craft activity.

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 ("Official Gazette of the Republic of North Macedonia" No. 151/2021) can only be started with the Government's prior consent.

Promoting Fiscal Decentralisation with changes in Law for Financing of Local Government

In 2022, the Ministry of Finance worked on reform to advance fiscal decentralisation. The reform for promotion of fiscal decentralisation offers a systemic solution for stable finances of the municipalities, which are a precondition for responsible municipalities and delivery of quality and efficient services to the citizens.

The reform consists of three pillars:

- increasing the fiscal capacity of the municipalities and increasing the revenues of the municipalities;
- increasing the financial discipline of the municipalities, reducing the debts and housekeeping; and
- increased transparency and accountability, translated into a legal solution, which has already passed the government procedure.

In August 2022, the Assembly adopted Amendments and Supplements to the Law on Financing Local Self-Government Units. The changes in the law are aimed at ensuring additional democratisation of society and more efficient and economical provision and delivery of services, but also enhanced local development. The reforms are aimed at improving the fiscal capacity and increasing the revenues of the municipalities, through a gradual increase in the rate of income from the value added tax that is distributed to the municipalities and personal income tax.

The reform envisages an increase from the current 3% projected revenues for the municipalities from the personal income tax to 6% and from the VAT subsidy rate from 4.5% to 6%, which will be applied from 2024 with a temporary increase in VAT refund rate, so that it will be 5% in 2022 and 5.5% in 2023. The funds from the additional increase of the VAT percentage for the municipalities will be distributed in two new funds – Performance Fund and Equalization Fund.

The Performance Fund will reward the municipalities that have better collection of local revenues, while the Inclusion Fund will act to reduce the differences according to the fiscal capacity of the municipalities. Namely, the municipalities that show positive results and have higher realisation of their own revenues will receive more funds from the Performance Fund, and from the municipalities, which have lower revenues due to limited capacity of resources, which have shown fiscal effort and good results in collecting of own income will receive more from the Equalization fund.

There are also new financial instruments to overcome the situation of financial instability with clearly defined conditions for use (structural bond from the Ministry of Finance, municipal bond for a known buyer and the so-called "stand-by" loan for municipalities).

Organic Budget law

The Organic Budget law was adopted by Parliament on 15 September 2022. The new budget law is in line with the commitment to improve the public financial management system, and provides a framework for conducting sound, predictable and sustainable fiscal policy and increasing budgetary discipline and accountability.

The draft law contains provisions regarding:

- fiscal rules;

- establishment of the Fiscal Council, which should provide independent and professional analysis and opinions on macroeconomic and fiscal assumptions, fiscal strategy, budget, budget implementation reports, fiscal risks and other;
- publishing a register of public entities, which will group the public entities of the country into: budget users, public enterprises and other public entities;
- fiscal policy statement should contain the guidelines for the fiscal strategy during the mandate of the Government;
- improving the process of medium-term fiscal strategy;
- improved public investment management;
- regular monitoring of the budget execution;
- increasing transparency (providing data on public enterprises, local self-government units);
- management and disposal of financial and non-financial assets of the state and the municipalities; and
- establishment of an Integrated Information System for Public Financial Management and more.

At the same time Ministry of Finance, with EU IPA twinning project "Strengthening budget planning, execution and internal control functions", will continue to work on the preparation of bylaws, guidelines, manuals, etc., aimed at operationalising the new Law on Budgets, further improvements to the public financial management system, as well as the development of a detailed plan for all work processes in the Ministry of Finance. Also, in the coming period plans to introduce an Integrated Financial Management Information System (IFMIS - Integrated Financial Management Information System), which will establish integration and connection with all budget users and systems of the Public Administration revenues, the Customs Administration, and other institutions, in order to enable more efficient management of public finances.

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. 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. 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 MKD 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 almost three decades. Average annual inflation from 2011 to 2022 amounted to 2.6%, 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, international reserves of North Macedonia have increased by 16% through September 2022, ranging from a low of €2.3 billion at end of 2015 to a high point of €3.8 billion. 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 in the total amount of €767.65 million, 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 due to the significantly reduced supply of foreign currency by individuals, the National Bank intervened on the foreign exchange market with net sales of €470.5 million and €116 million, in 2020 and 2021 respectively. The IMF RFI disbursement in April 2020, along with the Government borrowing from the international market by issuing Eurobonds in June 2020 and March 2021, as well as the IMF's general allocation of the SDRs in August 2021, all supported international reserves during the last two years. This was offset partially by the withdrawal of the EC loan in October 2020. At the end of 2020, the Republic's international reserves increased by approximately €100 million compared to 2019, while in 2021 reserves increased by €283 million.

During 2022, international reserves were maintained in the safe zone, meaning that their level met the adequacy requirements according to the international standards for maintenance of the stability of the exchange rate. Since the beginning of 2022, the foreign exchange market registered increased needs for foreign currency by companies due to higher energy imports. Additionally, domestic entities have increased the propensity to convert the domestic currency into foreign currency as safe assets to mitigate the risks of the energy crisis and global uncertainty, contributing to rise of the euroisation measured as share of foreign currency deposits to total deposits in the banking sector. Therefore, the international reserves declined during the first half of 2022. However, since July 2022, the international reserves recorded consistent growth, mainly due to the NBRNM interventions on the foreign exchange market as well as the Government's issuance of €250 million registered bonds on the German market. Additionally, the Government concluded a 24-month Precautionary and Liquidity Line ("**PLL**") agreement with the International Monetary Fund ("**IMF**"), worth €530 million, serving as a policy anchor, while providing a safety net, should external financing conditions deteriorate abruptly. The first inflow from IMF's PLL line was received in November 2022 in amount of around €107 million. For further information, see "*Risk Factors—The economy of North Macedonia 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*". Thus, the international reserves recorded an annual growth by €219.6 million for 2022.

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 maintenance 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, banks of North Macedonia 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 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 75 basis points 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 banks of North Macedonia 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 25 basis points 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 (MKD and foreign currency) decreased from 7.06% in January 2015 to 4.6% in December 2020, and interest rates on total received deposits (MKD 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 75 basis points to 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' MKD 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 MKD 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 MKD 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.

In March 2021, the National Bank reduced the key interest rate by additional 25 basis points, to a historically low level of 1.25%. The decision on further monetary accommodation was made in conditions of stable developments on the foreign exchange market, comfortable level of foreign reserves and moderate dynamics of the inflation, expecting to create a further support to the domestic economy, due to the persistent uncertainty related to the COVID-19 pandemic. During 2021, the National Bank assessed that the liquidity injected through the main monetary policy instrument of MKD 15 billion in 2020 was appropriate and therefore offered MKD 10 billion in 2021. Thus, the NBRNM maintained the accommodative monetary policy in 2021 and accordingly the banks further reduced the MKD lending interest rates applied to households and enterprises, from 6.2% and 3.8%, in December 2020 to 5.8% and 3.5% in December 2021, 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 *"— Macroprudential COVID-19 measures*". 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 (individuals) and individual approach for companies, for approval of "grace-periods" in the repayment of loans for a period of three to six months. During September 2020, the 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. At the end of 2021, a negligible part of banks' loans (0.04% of total loans) were under a grace period (or moratorium of loans repayment) due to the COVID-19 pandemic. Following the expiration of the moratorium, some materialisation of credit risk in banks' credit portfolio was evidenced, especially in the first months of 2021. However, the situation stabilised in the following months and NPL ratios retained its relatively stable and low levels.

Developments related to the COVID-19 pandemic and its prolonged effects remain a key risk factor in the following period, further complicated by the energy crisis, disrupted global supply chains, rising inflation rates, expectations for tightening the monetary policy of major central banks, etc.

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. Banks are obliged to maintain this ratio at a minimum of 100%, at an aggregated level for all currencies in which banks perform activities. Moreover, banks are obliged to report to the National Bank, the liquidity coverage ratio ("**LCR**") levels for individual significant currencies as well. As at 30 September 2022, the Liquidity Coverage Ratio aggregated for the banking sector amounted to 258.9%.

The European Central Bank ("**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, initially until March 2022, and consequently it has been extended twice, the first time until January 2023 and the second time until January 2024. To date, the NBRNM has not used any funds from the approved repo line, given the maintenance of adequate levels of both MKD and foreign currency liquidity of the banking system, with an upward trend of the banks' liquid assets.

In 2022, the inflation in the domestic economy accelerated, as in many countries. The average annual inflation rate increased to 14.2% in 2022. The acceleration in inflation was mainly a reflection of growth in global prices of primary products (food and energy), and of import prices in general. This was particularly evident in economies that are import dependent, as is the case with the Republic. Further, the euroisation measured as share of foreign currency deposits to total deposits in the banking sector rose from 38% as of 2019 to 44% as of the end of 2022, as risk mitigation response of domestic entities to the energy crisis and global uncertainty. The main policy rate (Central Bank Bills' interest rate) gradually increased from 1.25 percentage points March 2022 up to 4.75% in December 2022. Following the basic policy rate changes, the interest rates of Deposit Facilities, both overnight and seven-days, were increased to 2.65% and 2.70%, respectively. Given the monetary strategy of a stable exchange rate of MKD against the euro, the changes in the domestic monetary policy reflect the changes in the monetary policy of the ECB that started raising the main interest rate (main refinancing operations with fixed rate tenders) in July 2022. The monetary policy normalisation was supported by additional measures such as changes in the reserve requirement system aimed at stimulating savings in domestic currency. In addition, the NBRNM undertook systemic measures and introduced a countercyclical capital buffer of 0.5% for the period from August to December 2023 and 0.75% for the period from January to March 2024. Both countercyclical capital buffer rates are referring to the banks' exposures to North Macedonia. Moreover, the NBRNM introduced countercyclical capital buffer for the banks' exposures to other countries. Borrower-based measures were also adopted at the end of 2022, including macroprudential instruments for the quality of the credit demand by household borrowers. All these measures were undertaken with an aim to further strengthen the resilience to shocks of the banking sector (See "*—Macroprudential COVID-19 measures*"). It is expected that the increase of the basic policy rate along with all additional changes made in 2022 (changes to the rates of allocating reserve requirement system, standing facilities' interest rates of the countercyclical capital buffer and the borrow-based macroprudential measures) will continue to affect interest rate policy in 2023 of the banks and will suppress the inflation expectations, stimulate savings in MKD and preserve the stability of the banking sector.

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**	**2021**	**2022**
Average	61.60	61.58	61.51	61.51	61.67	61.63	61.62
End of period	61.48	61.50	61.50	61.49	61.69	61.63	61.49

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**		**2021**		**2022**	
	(MKD billion, unless indicated otherwise)													
Loans of non-financial entities by currency														
MKD	160	56%	175	58%	192	60%	199	58%	209	58%	230	59%	243	57%
MKD with FX clause	69	24%	73	24%	80	25%	91	27%	95	27%	99	26%	106	25%
Foreign currency	56	20%	53	18%	51	15%	51	15%	53	15%	59	15%	74	18%
Total	285	100%	300	100%	322	100%	341	100%	357	100%	387	100%	423	100%
Deposits of non-financial entities by currency														
MKD	193	59%	204	59%	235	61%	261	62%	270	61%	275	58%	281	56%
MKD with FX clause	1	0.3%	2	0.5%	1	0.2%	0	0.1%	1	0.2%	1	0%	0.6	0%
Foreign currency	132	41%	137	40%	149	38.8%	158	37.6%	172	38.9%	200	42%	218	44%
Total	327	100%	343	100%	385	100%	419	100%	443	100%	477	100%	500	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		2021		2022	
	(MKD billion, unless indicated otherwise)													
Loans of non-financial entities by sector														
Enterprises..	154	54%	158	53%	165	51%	168	49%	170	48%	185	48%	206	49%
Households	129	45%	141	47%	156	48%	172	50%	186	52%	200	52%	215	51%
Other clients	1	0.4%	1	0.4%	2	0.5%	1	0.4%	2	0.5%	2	0%	2	0%
Total	285	100%	300	100%	322	100%	341	100%	357	100%	387	100%	423	100%
Deposits of non-financial entities by sector														
Enterprises	87	27%	89	26%	98	25%	112	27%	123	28%	138	29%	143	28%
Households	217	67%	231	67%	253	66%	273	65%	285	64%	305	64%	323	65%
Other clients	22	7%	22	7%	34	9%	35	8%	35	8%	34	7%	34	7%
Total	327	100%	343	100%	385	100%	419	100%	443	100%	477	100%	500	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 economy and banking system of North Macedonia, 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 COVID-19 pandemic. This measure was implemented on 15 April 2020. In 2021, the National Bank continued to implement this measure, which was further harmonised with the measures undertaken by the Government that were intended to ease the effects of the COVID-19 pandemic on the corporate sector. In September 2022 the NBRNM extended this measure and encouraged the crediting of the domestic electricity production projects from renewable sources, through the reserve requirement system. During 2022 the NBRNM has implemented few changes in the reserve requirement system aimed at stimulating savings in domestic currency. The NBRNM reduced the reserve requirement for MKD liabilities from 8% to 5% and increased the reserve requirement rate for liabilities in foreign currency from 15% to 1819 Additionally, the NBRNM increased the percentage of the amount of reserve requirement on in foreign currency liabilities maintained in Euro from 70% to 77%. The NBRNM also increased the portion of the reserve requirement in euros subject to averaging, from 5% to 10%.

Open market operations and other instruments

CB bills are the main 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. The NBRNM conducts auctions of 28/35-day CB bills through volume tenders with a predefined interest rate of 4.75% as of December 2022.

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 prevailing market interest rates.

In April 2012, the NBRNM introduced a standing 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 interest rate on an overnight deposit facility is 2.65% and 2.70% on a seven-day deposit facility, as of December 2022.

Other less frequently used instruments include overnight credit facility and outright operations. Due to an increased in the main policy rate, the interest rate on overnight credit facility was increased by 350 basis points, at 5.25%, as of December 2022. 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 2022, the average annual growth rate of money supply amounted to 7.3%. 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 MKD 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 MKD 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 the 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 MKD deposits, while foreign currency deposits had grown by 8.1% during 2018. The share of MKD 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 MKD 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. MKD 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 MKD deposits in M4 decreased slightly from 57.4% as at 31 December 2019 to 55.5% as at 31 December 2020.

M4 continued to increase during 2021 with growth of 7.0% as of the end of 2021. This was predominantly due to the uncertainty caused by the COVID-19 pandemic and inflationary pressures entailed by the global supply factors which affected the currency structure of the broad money supply (M4) in the Republic. Namely, the MKD deposits' annual growth decelerated to 1.7%, while foreign currency deposits increased by 16.5%. Therefore, the share of the MKD deposits in M4 decreased from 55.5% as of 31 December 2020 to 52.8% as of 31 December 2021.

The annual growth of M4 slowed to 5.1% as of 31 December 2022, which reflects, in particular, pressures on domestic liquidity for servicing the rising imports, which were pressed by the increase in the world food and energy prices. The MKD deposits' increased by 2.2%, while foreign currency deposits increased by 8.5% on annual level for 2022. Overall, the share of the MKD deposits in M4 decreased from 52.8% as of 31 December 2021 to 51.3% as of 31 December 2022.

The following tables reflect the components of money supply for the periods indicated:

	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
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	43,701	21.0
Demand deposits	160,765	15.2
M1	204,466	16.4
Short-term Denar deposits	44,042	-10.2
Short-term Foreign currency deposits	134,950	12.3
M2	383,458	11.2
Long-term Denar deposits	65,332	-10.0
Long-term Foreign currency deposits	38,199	0.8
M4	486,989	6.9

	Year end 2021 (MKD million)	Annual Change (December 2021/ December 2020) (%)
Currency in circulation	44,480	1.8
Demand deposits	177,716	10.5
M1	222,196	8.7
Short-term Denar deposits	40,033	-9.1
Short-term Foreign currency deposits	160,778	19.1
M2	423,007	10.3
Long-term Denar deposits	57,102	-12.6
Long-term Foreign currency deposits	40,896	7.1
M4	521,005	7.0

	Year end 2022 (MKD million)	Annual Change (December 2022/ December 2021) (%)
Currency in circulation	47,490	6.8
Demand deposits	188,038	5.8
M1	235,528	6.0
Short-term Denar deposits	39,429	-1.5
Short-term Foreign currency deposits	175,061	8.9
M2	450,018	6.4
Long-term Denar deposits	53,524	-6.3
Long-term Foreign currency deposits	43,810	7.1
M4	547,353	5.0

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 and 2021, the NBRNM further reduced the policy rate to 1.5% and 1.25%, respectively. The basic policy rate gradually increased during 2022, reaching 4.75% in December 2022 to anchor the inflation expectations in the domestic economy.

The period from 2015 to 2021 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 MKD lending interest rate decreased from 7.1% in December 2015 to 4.7% in December 2021, and the MKD deposit rate decreased to 1.1% in December 2021 from 2.6% at the end of 2015. As of December 2022, the MKD lending interest rates remained unchanged at 4.7%, while the MKD deposit interest rates slightly increased to 1.2%. MKD lending interest rates applied to households and enterprises also decreased during this period, from 7.9% and 6.6%, in December 2015 to 5.8% and 3.5% in December 2021, respectively. As of November 2022, households' MKD lending interest rates slightly decreased to 5.7% (5.8% as of the end of 2022), while enterprises' MKD lending interest rates increased to 3.7% (3.5% as of the end of 2022). MKD deposit rates of households and enterprises decreased to 1.1% and 1.0% in December 2021 from 2.6% and 2.3% at the end of 2015, respectively. Similarly, MKD interest rates for the deposit of households and enterprises registered small adjustments as of November 2022; the former remained at a level of 1.1% (1.1% as of the end of 2021), while the latter increased to 1.6% (1.0% as of the end of 2021).

The interest rates on newly received MKD deposits and newly granted MKD lending recorded significant changes due to the measures undertaken and implemented by the NBRNM. The NBRNM increased the basic interest rate, introduced changes to the reserve requirement system and increased the deposit facilities' interest rates during the period from January to November 2022 in order to curb the inflation expectations and give incentive to the banks to adjust MKD interest rates and accordingly increase the denarisation. Therefore, the interest rates on newly received MKD deposits rose from 0.7% as of December 2021 to 2.0% as of November 2022. At the same time, the interest rates on newly granted MKD loans adjusted from 3.8% as of December 2021 to 4.9% as of November 2022. The interest rates on newly received households and enterprises deposits in MKD also increased from 1.0% and 0.4% as of December 2021 to 2.0% for both sectors as of November 2022, respectively. Households and enterprises MKD interest rates on newly granted loans, increased from 4.9% and 3.3% as of December 2021 to 5.2% and 4.7% as of November 2022, 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 licenced 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 are no longer 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 resilience 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 reviews 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. A new anti-money laundering ("**AML**") and counter financing of terrorism Law aligned with the AML 5th Directive was adopted by the Parliament in mid-2022 and published in the Official Gazette of the Republic of North Macedonia No. 151/2022.

Banks of North Macedonia 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 banks of North Macedonia.

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, 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.

Based on the assessment conducted by the European Banking Authority (the "**EBA**"), on 1 October 2021, the European Commission adopted a Decision (EU) 2021/1753, which confirms that North Macedonia has in place prudential, supervisory and regulatory arrangements which comply with a series of operational, organisational and supervisory standards reflecting the essential elements of the Union's prudential, supervisory and regulatory arrangements applicable to credit institution. With this Decision, the Republic is included in the list of countries for which it has been determined that their regulation and supervision is equivalent to capital requirement standards prescribed with the EU Regulation no. 575/2013 on prudential requirements for credit institutions.

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 assesses 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, banks of North Macedonia are required to develop and implement the Internal Liquidity Adequacy Assessment Process ("**ILAAP**"), which is 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.

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 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[3]. 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, 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). In November 2018, the ECB and the NBRNM signed 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 until March 2022 and consequently it has been extended until January 2023. The line was then further extended to 15 January 2024. To date, the NBRNM has not used any funds from the approved repo line, given the maintenance of adequate levels of both MKD 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 five years (2017-2021), 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 2021:

- 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;

[3] Based on the assessment performed as part of the more comprehensive equivalence assessment of the prudential, supervisory and regulatory arrangements for banks in North Macedonia, in October 2021, EBA and the European Commission confirmed the previous equivalence assessment of the NBRNM's confidentiality or professional secrecy regime.

- 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 banks of North Macedonia have a leverage ratio in excess of the minimum of 3% determined by Basel III, on average for the banking sector, leverage ratio is about 10%) 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 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 follow and comply with starting from 1 January 2021. This 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 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; and
- A 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 2019-2022 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 BRRD. In this context, in 2019 the Financial Stability Committee, composed of representatives of the Ministry of Finance and the NBRNM[4], issued a conclusion 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 2023. The NBRNM has also focused its activities on attainting adequate human resources and their capacity building through trainings and organised technical assistance on various bank resolution topics. At the same time, the National Bank started the drafting of the bylaws that will arise from the new law, and proposed appropriate amendments to the Law on the National Bank of the Republic, in order to adequately regulate this new activity. Amendments to the Banking Law are expected to follow the adoption of the Bank Resolution Law in order to harmonise the laws, especially in regard to undertaking early intervention measures.

[4] Financial Stability Committee was initially established in 2009 by MoU signed between National Bank and MoF, its composition was further widened in 2020 by new MoU signed between all financial regulators, while in 2022 the Financial Stability Committee was legally framed by the new Law on Financial Stability.

Basel III standards

Current capital adequacy regulation allows for full implementation of Basel III and the CRR, especially regarding the requirements on the structure and quality of own funds, i.e. the criteria to be met by capital instruments in order to be included in the calculation of a bank's own funds. In addition, minimum ratios for CET1 (4.5%) and Tier 1 capital (6%) are also implemented, contributing to further improvement of 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 country. 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 prescribed methodology and the NBRNM's analysis, starting from August 2023, banks will be obliged to fulfil a countercyclical capital buffer of 0.5% and starting from January 2024, a countercyclical capital buffer rate of 0.75%. The systemic risk capital buffer which is also regulated with the Banking Law is currently set at 0%.

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.

Current credit risk management regulation enables implementation of IFRS 9. 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 current 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, refinements of the definition of "non-performing exposures" are underway, which will allow for further compliance with the existing EU rules.

Macroprudential COVID-19 measures

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. 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. This enabled reduced credit burden of banks' clients, during the period when the adverse effects of the COVID-19 pandemic were expected to be most pronounced, as well as facilitated future access of these clients to the domestic credit market. These amendments were applicable only to clients whose loans were determined to be performing at the end of February 2020. The alteration of credit conditions affected almost 60% of the performing loans to households and about one third of the performing loans to non-financial companies. This regulation expired at the end of September 2020 and there are no longer any loans subject to COVID-19 alteration.

Besides allowing banks to alter credit contractual terms, the definition of NPL was also temporally amended. From March until September 2020, the threshold for obtaining non-performing credit status was 150 days instead of the standard 90-day period, while 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. Most of the banks reported their non-performing loans in October and November 2020 and the effect on the level of non-performing was minimal.

In 2020 the National Bank recommended that banks temporarily refrain from paying dividends, thus adding to their resilience and strengthening capacity to absorb losses. In February 2021, since the uncertainty surrounding the COVID-19 pandemic continued to persist, the National Bank Council passed a Decision to temporarily limit the distribution and payment of dividends to bank shareholders. In the following period, the National Bank reassessed the COVID-19 pandemic circumstances and bank's capacity to withstand unexpected credit losses and at the beginning of August 2021, it lifted the restriction from this decision.

During the height of the response to 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 COVID-19 pandemic. This measure was implemented on 15 April 2020. A new Decision on reserve requirement was adopted in July 2021 (entering into force in September 2021). The new Decision enables reduction of reserve requirement base in MKD for the amount of newly approved and restructured loans to companies engaged in activities which are considered most affected by the COVID-19 pandemic, according to information adopted by the Government. More precisely, all company loans approved and restructured after 1 March 2020 (referring to companies from the so-called Group 1 economic activities) and after 1 August 2021 (referring to companies from the so-called Group 2 economic activities) are covered with the measure. Due to the gradual depletion of the COVID 19 impact on the economic activity, implementation of the measure ended as of 31 December 2022.

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 (79.1% in 2021) 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 financial sector of North Macedonia. 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 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, 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. Measures 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 13.7% as of December 2021 and only 6.3% as of 30 September 2022.

Since January 2016, banks are required to write-off non-performing credit exposures that have been fully provisioned/impaired for two years (for 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 provisioned 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. The NBRNM determines which banks are systemically important on an annual basis. Currently, six banks (out of thirteen banks) are identified as systemically important banks and they are required to maintain a corresponding capital buffer amounting from 1% to 2.5% of individual banks' RWAs. Countercyclical capital buffer for banks' exposure to clients from North Macedonia is determined at the level of 0.5% starting from August 2023. Starting from 1 January 2024, the countercyclical capital buffer is expected to be 0.75%. For the banks' exposure to clients from countries other than North Macedonia, rates to the countercyclical capital buffer determined by the competent authority of the relevant other country should apply. The systemic risk buffer has so far remained at 0%. On 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. Banks are obliged to maintain this ratio at a minimum of at least 100%, at an aggregated level for all currencies in which banks perform activities. Moreover, banks are obliged to report to the National Bank, the LCR levels for individual currencies as well. In December 2022, the NBRNM Council adopted a decision prescribing so-called borrower based macroprudential instruments, applicable from July 2023. This decision defines the following ratios: Loan-to-Value ("**LTV**"), Debt-service-to-income ("**DSTI**") and Total-debt-to-income-ratio ("**DTI**"), without limiting their level, but introducing an obligation for banks to report to the National Bank on the level of these indicators that they apply when lending to natural persons. This decision should provide for unification in the manner of calculation of these ratios by all banks according to the same methodology, which will enable better comparability of data analysis and monitoring of the level and trends of these indicators in the practice.

The NBRNM has actively used reserve requirements for macro-prudential purposes by differentiating the rates on MKD and FX deposits to reduce deposit-driven euroisation and contain currency risk.

In 2022, due to the observed increased tendency to save in foreign currency, as well as the speculations about the stability of the national MKD, a reduction was made in the reserve requirement for MKD liabilities (from 8% to 6.5%) and there was a simultaneous increase in the reserve requirement for FX liabilities (from 15% to 16.5%). This change to the reserve requirement instrument was applied from June 2022. There was also an amendment of the decision on the reserve requirement in June 2022, which included a further decrease in the reserve requirement rate for MKD liabilities (from 6.5% to 5%) and an increase in the requirement rate for foreign exchange liabilities (from 16.5% to 18%). At the same time, the banks' reserve requirement in foreign currency that banks fulfil in euros was also increased from 70% to 75%. In September 2022, changes were made to the reserve requirement instrument, which encourages lending of the domestic electricity production projects from renewable sources. With this decision, banks' reserve requirement base in MKD should be reduced by the amount of newly approved loans for financing domestic electricity production projects from renewable sources. In November 2022, reserve requirements for foreign currency liabilities further increased (from 18% to 19%) and the banks' reserve requirement in foreign currency that banks fulfil in euros, was also increased (from 75% to 77%).

Cooperation between financial regulators is effected through direct communication amongst themselves and more formal communication through the Financial Stability Committee ("**FSC**"), established in 2009 by a Memorandum of Understanding signed between the National Bank and the Ministry of Finance. In line with the recommendations of the 2018 FSAP mission, in April 2020 the FSC was reconstituted by the new Memorandum of Understanding signed between all financial regulators and deposit insurance funds in order 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– the Sub-Committee for monitoring systemic risk and proposing 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 and two Subcommittees hold regular meetings. The Law on Financial Stability, that entered into force in August 2022, dedicates macroprudential mandate to all supervisory bodies and legally formalises the FSC as an inter-institutional body responsible for implementation of the macroprudential strategy. The strategy on macroprudential policy has been prepared and according to the Law should be adopted by the FSC by May 2023.

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 13 banks (a decrease of one bank in comparison to 2021) and two savings institutions as at 30 September 2022. In July 2021, Ohridska Banka AD Skopje merged with Sparkasse Banka AD Skopje. 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 economy of North Macedonia through financing to small and medium-sized enterprises and export oriented companies, directly or through credit lines to other banks in the country. Nine banks are owned by foreign shareholders, seven of them from EU countries, and five 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, measured by asset size, are as follows:

Bank	**Key shareholders**[(1)]	**Share in assets, as of 30 September 2022**
Komercijalna Banka AD Skopje	Adora Engineering DOOEL Export Import Skopje (14.99%)	23.1%
Stopanska Banka AD Skopje	NBG Greece S.A. (94.64%)	17.8%
NLB Banka AD Skopje	NLB Slovenia (86.97%)	16.3%
Sparkase Banka AD Skopje[(2)]	Steirmärkishe Bank und Sparkassen Aktiengeselshaft (95.60%)	12.3%
Halk Banka AD Skopje	Turkiye Halk Bankasi AS Istanbul (99.48%)	11.9%

Notes:

(1) Data on key shareholders and their respective percentage shares in total number of issued shares refer to as of 3 October 2022.

(2) In July 2021, Ohridska Banka AD Skopje merged with Sparkase 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 (out of six 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 less than 0.5%. Amendments to the Law on Banks are underway, as it is expected that the list of financial activities that can be performed by savings banks will be expanded in line with the new Law on Payment Services and Payment Systems (*"Official Gazette of the Republic of North Macedonia" No. 90/2022*).

As of 30 September 2022, the asset-to-GDP ratio of banks of North Macedonia amounted to 86.4%, Gross credits and deposits amounted to 54.1% and 61.7% of the gross domestic product, respectively. The following table sets out developments in banking system assets:

	Year ended 31 December						As at 30 September
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Banking System Assets (MKD million)[(1)]................	444,680.3	461,992.1	503,469.0	549,969.4	585,500.3	638,665.8	657,256.3
Banking System Assets (% GDP)[(2)]..............................	74.8%	74.7%	76.2%	79.4%	87.5%	88.7%	86.4%

Notes:

(1) The exchange rates applicable at individual dates are as follows: €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. 6940 (31 December 2020); €1 = MKD 61.6270 (31 December 2021); €1 = MKD 61.4950 (30 September 2022).

(2) Last revision to GDP figures (at current prices): December 2022.

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

General developments and performance

In the first half of 2016, the banking system of North Macedonia was influenced by the unstable political situation in the Republic, 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 financial stability of North Macedonia. In 2015, total assets of 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 limited) on the banking system's dynamics. In 2020, the assets of the banking system had a year-on-year growth of 6.5% compared to 9.1% as at 31 December 2019. In 2021, total assets increased by 9.2% annually. As of 30 September 2022, assets of the banking system amounted to MKD 657 billion, representing an annual increase of 8.0% (7.1% as of 30 September 2021).

Traditional banking is the dominant business model in the banking system of North Macedonia. Banks of North Macedonia 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 60% 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 banking system of North Macedonia 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 approximately 66%, 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. The COVID-19 pandemic and resulting global economic crisis negatively affected (to a limited extent) the growth of deposits as the main source of financing for domestic banks' activities. Yet, the effects from the health and economic crisis on the banking system were limited, with sporadic withdrawals of deposits noted only in April 2020. Hence, the annual growth of total deposits of non-financial sector in 2020 was positive and amounted to 6.2% (compared to 9.2% noted in 2019). At the same time, the household deposits rose by 4.5% (7.6% in 2019). In 2021, deposits from the non-financial sector noted an increase of 8.8%, while household deposits rose by 6.9% compared to 2020. The war in Ukraine also has had some negative effects on banks' deposit activities. In March 2022, deposits of non-financial sector slightly declined (by 1.8%), followed by a relatively weak deposit growth witnessed in the next few months. However, from June 2022, banks' deposits have started to increase and in the third quarter of 2022 have increased by 3.1%. As of September 2022, total deposits of non-financial sector amounted to MKD 470 billion, noting an annual increase of 4% (9.2% as of 30 September 2021). Household deposits in this period equaled MKD 318 billion, representing an annual growth of 5.4% (6.7% as of 30 September 2021).

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 2.3%, compared to a 5.3% decrease in December 2016. If the effects of compulsory write-offs are not taken into account, the annual growth rates would have presented an increase of 4.3% as at December 2017. 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 9.2%, 7.0% 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 4.5%, compared to growth of 2.3% 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 10.3%, 9.2% and 7.0% 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 1.9%, compared to growth of 4.5% 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 10.5%, 10.3% and 9.2% in December 2019, December 2018 and December 2017, respectively).

As at 31 December 2020, credit to the non-financial sector amounted to MKD 353.5 billion, representing annual growth of 4.1% (compared to the annual growth of 6.1% in 2019 and 7.6% in 2018). Credit to corporates grew more slowly than loans to households. As at 31 December 2020, the annual growth in loans to corporates was 1.1%, compared to growth of 1.9% as at December 2019. If the effects of compulsory write-offs are not taken into account, the annual growth rates would have presented increases of 1.5% and 3.9% as at December 2020 and December 2019, 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 8.0%, 10.5% and 10.3% in December 2020, December 2019 and December 2018, respectively).

As at 31 December 2021, credit to the non-financial sector amounted to MKD 383.6 billion, representing an annual growth of 8.5%. Credit to corporates grew faster than loans to households. As at 31 December 2021, the annual growth in loans to corporates was 8.7%. The annual growth rate of loans to households was solid as of 31 December 2021 amounting to 7.8%.

As at 30 September 2022, credit to the non-financial sector amounted to MKD 412 billion, representing an annual growth of 10.7%. Credit to corporates grew faster than loans to households. As at 31 December 2022, the annual growth in loans to corporates was 11.5%. The annual growth rate of loans to households as of 31 December 2022 amounts to 7.3%.

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 9.2% in 2017, 10.3% in 2018 and by 10.5% 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 December 2020, loans to non-financial companies increased by 1% year-on-year (2.4% as at 31 December 2019) and loans to households grew by 8.0% year-on-year (10.5% as at 31 December 2019). The credit growth continued in 2021 and noted even higher dynamics. Corporate loans surged by 8.7%, whereas household loans increased by 7.8%. As of 31 December 2022 corporate and household loans rose by 11.5% and 7.3%, respectively.

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 has introduced a regulatory measure that obliges banks to regularly write-off NPLs that are fully covered with loan loss provisions for two consecutive years (one year commencing from July 2019). Consequently, the NPL ratio of banks of North Macedonia 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 for one year, 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 December 2020, the NPL ratio for corporate credit and household portfolios amounted to 5.2% 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 73.2%. Hence, despite the health and 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. The NPL ratio increase in 2021 due to the uncertainty related to the COVID-19 pandemic and such NPL ratios were more pronounced in the first quarter of the year and particularly in the household credit portfolio. In 2021, NPLs to households increased by 33.8%, whereas total NPLs rose by 4.5% (corporate NPLs decreased by 5%). However, due to the low starting level of NPLs, NPL ratios are still stable and at relatively low levels. As at the end of 2021, the NPL ratio for the household credit portfolio equalled 2% (1.6% at the end of 2020). On the other hand, in 2021, the corporate credit portfolio, the NPL ratio amounted to 4.5% (in comparison to 5.2% at the end of 2020). As at the end of 2021, the NPL coverage ratio remained at a consistent level of 66.3%, although it noted a decrease of 7% (from a level of 73.2% as of the end of December 2020), as a result of the mandatory write-offs of fully provisioned NPLs. In the first nine months of 2022, the NPL ratio increased to a level of 3.3% (from 3.2% as of 31 December 2021), with the corporate sector NPL ratio remaining stable at 4.5% (the same level as at the end of 2021), and household sector NPL ratio increased to 2.2% (from 2.0% as of the end of 2021). The annual growth rate of NPLs to households amounted to 10.7% (47.5% as of 30 September 2021), whereas total NPLs rose by 3% (10.3% as of 30 September 2021) and NPLs to corporates slightly declined by 0.5% (-0.8% as of 30 September 2021). As of 30 September 2022, the NPL coverage ratio was 67.6%.

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 "—*Macroprudential COVID-19 measures*" 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. At the end of September 2022, a negligible part of banks' loans (0.001% of total loans) was still under moratorium. As aforementioned, after the expiration of the moratorium, some materialisation of credit risk in banks' credit portfolio was evidenced, especially in the first months of 2021. However, the situation stabilised in the following months and NPL ratios retained its relatively stable and low levels. Developments related to the COVID-19 pandemic and its prolonged effects remained a key risk factor in the following period, further complicated by the energy crisis, disrupted global supply chains, rising inflation rates, expectations for tightening the monetary policy of major central banks, etc. Moreover, with the outbreak of the war in Ukraine in February 2022, the uncertainties for the global economy have intensified and become more complex with almost inevitable spillovers of negative effects on the economy of North Macedonia. Possession of high liquidity buffers has always been a strength for banks of North Macedonia. Since 2010, liquid assets have represented approximately 30% of total assets of the banking system and have covered approximately 60 to 65% of household deposits, while liquid assets have covered approximately 55 to 60% of short-term liabilities since 2011. As at 31 December 2021, banks' liquid assets comprise 32.4% of total assets (compared to 32.5% as at 31 December 2020) and cover 52.3% of short-term liabilities (compared to 53.8% as at 31 December 2020) and 65.5% (compared to 64.4% as at 31 December 2020) of total household deposits. With the deceleration of deposit growth (and the noted declines of deposits in the months immediately following the outbreak Russia/Ukraine conflict) and the intensification of the credit support to the economy, banking system liquid assets have declined. As at 30 September 2022, the annual change of the liquid assets was -2.5%, compared to the evidenced growth of 13.6% as of 30 September 2021. Liquid assets decreased in the first half of 2022 but started to increase in the third quarter of 2022 when liquid assets rose by 2.4% compared to the first half of the year. In the first nine months of 2022, the share of liquid assets in total assets equals to 28.8%, while the coverage of short-term liabilities and household deposits are 46% and 58.1%, respectively. The loan-to-deposit ratio has regularly been maintained at a stable level of between 80% and 90%. As at 31 December 2021, the loan-to-deposit ratio amounted to 81.8% (82% on 31 December 2020) and as of 30 September 2022, this ratio amounted to 87.7%. As at 31 December 2020 and 2021, respectively, the amount of loans outstanding was MKD 353.5 billion and MKD 383.6 billion, respectively. As at 31 December 2020 and 2021, deposits in the banking system of North Macedonia were equal to MKD 430.9 billion and MKD 468.8 billion, respectively. As of 30 September 2022, the amount of loans outstanding was MKD 412 billion, while deposits amounted to a level of MKD 470 billion. 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	2021	2022
Financial Soundness Indicators								
Loans (MKD million)........	277,533.2	280,962.3	297,575.7	320,085.3	339,698.7	353,502.3	383,626.7	411,695.8
Deposits (MKD million)....	306,189.8	322,796.8	339,281.1	371,333.5	405,586.7	430,870.1	468,844.2	469,603.0
Loan-to deposit ratio..........	90.6%	87.0%	87.7%	86.2%	83.8%	82.0%	81.8%	87.7%

Source: Financial Stability Department of the Republic of North Macedonia

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. As at 31 December 2021, the Liquidity Coverage Ratio aggregated for the banking sector amounted to 292.2%, while as of 30 September 2022 this ratio amounted to 258.9%. 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 banking system of North Macedonia 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%, respectively. 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. Six banks have been identified as systemically important according to the latest list of systemically important banks, based on year-end 2021 data. The NBRNM published this list at the end of April 2022 and systemically important banks should comply by March 2023. The counter-cyclical and the systemic risk capital buffer are two additional macro-prudential tools at the disposal of banks according to regulation. 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. On the basis of the regular assessments of cyclical systemic risks, in August 2022, countercyclical capital buffer of banks was introduced for exposures in the Republic, in the amount of 0.5%, applicable from August 2023. In December 2022 the NBRNM Council decided to increase the countercyclical capital buffer by 0.25 percentage points to 0.75% applicable from 1 January 2024. This primarily refers to the accelerated growth of housing prices, which in the third quarter of 2022 increased by 21.2% on an annual basis (which is the highest growth since the period of the global financial and economic crisis), with further high growth of housing credits. Although for the time being there are no signs of the materialization of the credit risk in the balance sheets of the banks, and the portfolio of residential loans is still healthy, the risks in this segment are further emphasized by the prolonged general growth of prices, which is above the initial expectations, and in general is the reason for the tightening of financial conditions as an additional risk factor for the creditworthiness of bank customers. In such conditions, especially since the risks have not yet affected the balance sheets of the domestic banks, the increase in the buffer rate has a preventive effect, towards further strengthening of the capital strength of the domestic banks, thus contributing to strengthening the stability and the resilience of the banking system and the overall financial stability. For the banks' exposures to clients from other countries, rates of the countercyclical capital buffer determined by the competent authority of the relevant other country should apply. The systemic risk capital buffer would be actively applied if conditions that might potentially disturb or jeopardise the stability of the financial system of North Macedonia 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 2022, the aggregate capital adequacy ratio of the banking system was 17.7%, with the Tier 1 ratio equalling 16.3% and Common Equity Tier 1 ratio (CET1 ratio) amounting to 16.3%. In the first half of 2022, the leverage ratio equalled 10.7% (10.6%, in the first half of 2021). Around 45.2% of the 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), 22.8% of own funds are deployed to fulfil the activated capital buffers (conservation capital buffer and capital buffers for D-SIBs) and 21.2% 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. It should be noted that during a limited period in 2021 (from February to August 2021), a limit was in effect on the distribution and payment of dividends to bank shareholders as a result of the COVID-19 pandemic.

	As at 31 December							As at 30 September
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Capital adequacy ratio								
Large banks	14.9	14.6	15.2	16.4	16.2	16.4	17.0	17.5
Medium-sized banks	16.3	16.6	17.2	16.7	16.5	17.6	18.5	18.3
Small-sized banks	18.7	19.2	17.2	17.9	17.8	17.6	18.7	19.4
Total banking system	15.5	15.2	15.7	16.5	16.3	16.7	17.3	17.7

Source: National Bank of the Republic of North Macedonia

In an environment of historically low and continuously decreasing interest rates (until 2021), the banks in North Macedonia 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 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 banking system of North Macedonia in 2020 increased 8.5% to MKD 7.3 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 net fee and commission income. In 2021, banking system profit rose by approximately 26% and reached a level of MKD 9.2 billion. The larger gains from collection of NPLs, previously written-off claims and release of provisions due to collection contributed the most in banking system profit growth. There was also a positive effect from the increase in net interest income as well as in net fees and commission income. In the first nine months of 2022, the banking system profit rose by 11.5% compared to the same period of 2021, reaching a level of MKD 8 billion. The increase of net interest income and net fees and commission income contributed the most in the growth of banking system profit. Moreover, banks decreased their net-impairment losses, due to the successful collections of clients' debts for which banks had previously set aside larger amounts of expected losses.

As at 31 December 2020, the ROAA (return on average assets) and the ROAE (return on average equity) were 1.3% and 11.3%, respectively, compared to 1.3% and 11.7% in 2019, 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 31 December 2021, the banking system ROAA amounted to 1.5%, whereas ROAE amounted to 12.9%. In the first nine months of 2022, banking system ROAA and ROAE equalled 1.7% and 13.7%, respectively, compared to 1.6% and 13.4%, respectively, for the first nine months of 2021.

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 483.4% as at 30 September 2022) i.e., with a shift of 17.4% from performing to non-performing credit exposure, the capital adequacy of the banking system would decrease to 8% (for illustrative purposes, only 0.3% of performing credit exposure to the non-financial sector became non-performing in the third quarter of 2022, whereas the non-performing credit exposure increased by 3.5%). With the assistance of IMF experts, the NBRNM has developed a model for macro stress-testing. The results of the latest macro stress test, conducted with 2021 data, are published in the Report on the Financial Stability in the Republic of North Macedonia. The stress tests are typically performed as top-down exercises, although in 2021 a comprehensive bottom-up stress test was also conducted, covering, for the first time, all banks in the system.

Capital Markets

In order to promote the transition to a market-based economy and facilitate the economic development of businesses in North Macedonia, the Government 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 includes the Law on Securities *("Official Gazette of the Republic of Macedonia" No. 95/2005; 25/2007; 7/2008; 57/2010; 135/2011; 13/2013; 188/2013; 43/2014; 15/2015; 154/2015; 192/2015; 23/2016 and 83/2018 and "Official Gazette of the Republic of North Macedonia" No. 31/2020 and 288/2021)*, the Law on Investment Funds *("Official Gazette of the Republic of Macedonia" No. 12/2009, 67/2010, 24/2011, 188/2013, 145/2015 and 23/2016 and "Official Gazette of the Republic of North Macedonia" No. 31/2020, 150/2021 and 288/2021)*, and the Law on Taking Over Joint Stock Companies *("Official Gazette of the Republic of Macedonia" No. 69/2013, 188/2013, 166/2014, 154/2015, 23/2016 and 248/2018 and "Official Gazette of the Republic of North Macedonia" No. 31/2020 and 288/2021).*

The Law on Amendments to the Law on Investment Funds was adopted in the first half of 2021 and complements Directive 2009/65/EC, relating to undertakings for collective investment in transferable securities (UCITC package 4). The amendments under the law include: introduction of feeders funds and masters funds, defining the procedures for mergers of investment funds and prescribing new document "key investor information" as a supplement to the fund's basic prospectus in order to provide enhanced disclosure to investors.

The Law on Amendments to the Securities Act was adopted in December 2021. The amendment of the law extended the deadline for mandatory listing for an additional of two years, because it proved to be beneficial for the capital market in the Republic, especially in terms of raising the companies' awareness of the need for transparency. The amendment also increased the liberalisation of the market by enabling domestic and foreign stock exchanges and depositors to be founders or shareholders in the depository.

In December 2021, the Capital Market Development Council adopted the Strategy for Development of Financial Markets with a special focus on the capital market. The Capital Market Development Strategy aims to present the key areas for development, with a main focus on identifying opportunities to expand the supply of long-term securities and increase demand, primarily through greater participation of households and domestic and foreign institutional investors. The strategy was developed in three parts: (1) "The role of the capital market in the national economy", which analyses in detail the Stock Market, the Bond Market, the Credit Market and the Market of alternative sources of financing in the country; (2) "Capital market development domains", which analyses the potential for capital market development through individual elaboration of the segments: population, companies, institutional investors, foreign investors and regulations related to the capital market; (3) "Measures to improve the capital market", which contains the specific measures for the development of the capital market. After the adoption of the Strategy by the Council, in January 2022 it was submitted and adopted by the Government as an operational strategic document.

Within the technical assistance provided by the World Bank, during 2023, the aim is to implement Directive 2011/61/EU for managers of alternative investment funds in domestic legislation. The implementation of the Directive will strengthen the rules and procedures for the operation of private investment funds and will regulate procedure for licensing of private investment fund managers.

In the first half of 2023, the aim is to adopt two new laws in the field of capital market (Law on Financial Instruments and Law on Securities Prospects and Transparency Obligations for Issuers). 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 the area of consumer protection, in November 2022 a working group was formed consisting of representatives from all regulatory authorities (NBRNM, ISA, SEC, MAPAS and the Ministry of Finance) who are working on the preparation of a new legal solution for the financial ombudsman. The law is expected to be adopted in the first half of 2024. The law will establish a special body that will receive and respond to complaints submitted by consumers in the field of financial services.

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 2022, the SECRNM had 29 employees, including the President of the SECRNM and one Commissioner.

In 2021, the SECRNM and the Macedonian Stock Exchange ("**MSE**") realised a mutual project with support from experts of the EBRD for the development of the new Corporate Governance Code.

With the introduction of a Corporate Governance Code, the MSE is taking another important step forward with the introduction of European standards in local capital markets. The code is addressed to companies with shares listed on the official market of the MSE, that meet the criteria specified in the listing rules. These companies will be required to report annually whether they have followed the practices in the code. As is the case in other European countries with capital markets of a similar size and structure, the code in North Macedonia applies an approach known as "comply or explain". All other listed companies that do not meet the criteria of the listing rule are encouraged voluntarily to report on how they implement the code.

In 2022, the SECRNM carried out seven full and seven 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 MSE. The MSE was founded on 13 September 1995 as the MSE 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					
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
	(MKD million unless indicated otherwise)					
Turnover	4,738	10,414	7,701	8,195	12,853	7,444
Block trades	1,818	5,261	2,467	2,042	6,070	2,364
Public offerings	—	247	992	166	9	73
Public auctions	13	17	31	—	38	374
Shares	2,729	4,358	3,819	5,681	5,395	4,151
Government bonds	179	531	358	284	1,342	460
Market Capitalisation (shares)	136,339	162,169	185,421	183,151	223,887	214,276
Total Market Capitalisation	139,832	165,559	189,459	196,828	242,519	233,749
Turnover/Market Capitalisation (%)	3.4%	6.3%	4.1%	4.2%	5.3%	3.5%
Index value (index points)	2,538.86	3,469.03	4,648.89	4,704.84	6,153.48	5,652.33

Source: Macedonian Stock Exchange[5]

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

As of 31 December 2022, there were five investment fund management companies in North Macedonia, managing 20 open-ended investment funds. The total net asset value of the funds on 31 December 2022 was MKD 11.05 billion or approximately €180 million, representing a 3.6% decrease as compared to 31 December 2021.

Insurance Sector

Legislation and Institutional Framework

Insurance companies conduct their activities in accordance with the Law on Insurance Supervision *("Official Gazette of the Republic of Macedonia" No. 27/2002, 98/2002, 79/2007, 88/2008, 67/2010, 44/2011, 112/2011, 188/2013, 30/2014, 43/2014, 112/2014, 153/2015, 192/2015, 23/2016, 83/2018 and 198/2018 and "Official Gazette of the Republic of North Macedonia" No. 101/2019, 31/2020 and 173/2022)*, the Law on Compulsory Insurance in Traffic *("Official Gazette of the Republic of Macedonia" No. 88/2005, 70/2006, 81/2008, 47/2011, 135/2011, 112/2014 and 145/2015 and "Official Gazette of the Republic of North Macedonia" No. 220/2019)*, and the Law on Voluntary Health Insurance *("Official Gazette of the Republic of Macedonia" No. 25/2000, 34/2000, 96/2000, 50/2001, 11/2002, 31/2003, 84/2005, 37/2006, 18/2007, 36/2007, 82/2008, 98/2008, 6/2009, 67/2009, 50/2010, 156/2010, 53/2011, 26/2012, 16/2013, 91/2013, 187/13, 43/2014, 44/2014, 97/2014, 112/2014, 113/2014, 188/2014, 20/2015, 61/2015, 98/2015, 129/2015, 150/2015, 154/2015, 192/2015, 217/2015, 27/2016, 37/2016, 120/2016, 142/2016 and 171/2017 and "Official Gazette of the Republic of North Macedonia" No. 275/2019, 77/2021 and 285/2021)*. 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

[5] Source: https://www.mse.mk/mk/reports

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 2023, 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.

The Law on Prevention of Money Laundering and Financing of Terrorism ("*Official Gazette of the Republic of North Macedonia" No. 151/2022*) establishes the competence of the ISA to conduct supervision over the insurance market, which is subject to regulation by this law, and to implement measures and actions to prevent money laundering and financing of terrorism.

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 licence 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 licenced 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 licenced as a reinsurer. Fourteen of the insurance companies are controlled by foreign legal entities. At 30 September 2022, the aggregate share of foreign ownership in the insurance market was 75.7%.

Gross written premiums as of 30 September 2022 totalled MKD 9.6 billion, representing an 8.7% increase compared to the same period in 2021. Aggregate gross written premiums in the non-life insurance sector totalled MKD 8.0 billion, representing a growth of 7.1% over the same period in the previous year. The life-insurance sector's gross written premiums totalled MKD 1.6 billion, representing an increase of 17.5% over the same period in 2021.

Insurance penetration (measured as the ratio of gross written premiums to GDP) at the end of 2021 was 1.6%, and insurance density (measured as the total amount of gross written premiums divided by total population) was 6,332 MKD. The insurance sector is characterised by its moderate market concentration. As of 30 September 2022, two insurance companies had a market share of greater than 10% but less than 20%, with the remainder having less than 10%.

As of 30 September 2022, insurance companies held MKD 30.8 billion in assets, representing an increase of 9.9% compared to the same period in 2021. The total capital of insurance companies amounted to MKD 7.2 billion, representing growth of 1.1% over the same period in 2021. The solvency margin, the main indicator for assessing the stability of the insurance sector, was MKD 2.0 billion, which was 3.5 times higher than the required solvency margin level. As of 30 September 2022, the insurance sector reported a profit of MKD 369.2 million, with the non-life sector reporting a profit of MKD 185.7 million, and the life insurance sector reporting a profit of MKD 183.5 million.

The role of intermediaries in insurance sales has become increasingly important for the insurance sector. As of 30 September 2022, direct sales by insurance companies generated 40.1% of gross written premiums, whereas 59.9% were generated through intermediaries. In the same period, there were 41 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 21 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 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.

	Year ended 31 December							30 September
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
	(€ million)							
Total general government debt (€ million)	3,453.3	3,851.5	3,958,5	4,344.4	4,556.8	5,516.0	6,080.2	6,497.4
External (€ million)	2,096.7	2,446.6	2,376.8	2,695.0	2,763.5	3,382.5	3,648.9	3,895.1
Domestic (€ million)	1,356.6	1,404.9	1,581.7	1,649.4	1,793.3	2,133.4	2,431.4	2,602.4
Total general government debt % GDP)	38.1	39.9	39.4	40.4	40.5	50.8(3)	52.0(3)	48.1(3)
External (% GDP)	23.1	25.3	23.7	25.1	24.5	31.2(3)	31.2(3)	28.8(3)
Domestic (% GDP)	15.0	14.5	15.8	15.4	15.9	19.6(3)	20.8(3)	19.3(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)	7,135.3(2)	7,643.6(2)
Total public debt (% GDP)	46.6(1)	48.8(1)	47.7(1)	48.4(1)	49.2(2)	59.7(2,3)	61.0(2,3)	56.6(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 48.1% as at 30 September 2022, 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 2022
General Government Debt (% GDP)[1]	
Eurozone area	92.9%
Bulgaria	23.1%
North Macedonia	48.1%
Serbia	53.7%
Albania	67.7%
Greece	178.2%
Montenegro	75.6%

Notes:

(1) The scope of general government debt may differ between countries due to methodological differences.

(2) These are provisional figures.

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 30 September 2022, the external general government debt of North Macedonia amounted to €3.895 billion, or 28.8% of GDP, and 59.9% 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 2016, 2018, 2020, 2021 and 2022 which amounted to €450 million, €500 million, €700 million, €700 million and €250 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						30 September
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
				(€ million)			
External General Government debt	2,446.6	2,376.8	2,695.0	2,763.5	3,382.5	3,648.9	3,895.1
Multilateral Creditors	773.8	761.6	745.9	846.1	1,129.7	1,215.5	1,225.1
IDA	240.8	213.4	203.8	192.6	168.3	159.9	158.9
IBRD	237.5	228.5	215.2	328.4	400.6	424.6	428.9
EIB	119.7	115.5	133.5	128.4	126.1	119.6	115.9
EBRD	80.2	100.2	94.8	91.5	79.2	66.2	69.4
CEDB	71.0	88.6	89.1	96.0	101.7	103.7	98.7
EU	13.6	5.6	0.0	0.0	80.0	160.0	160.0
IFAD	10.8	9.7	9.4	9.1	8.2	8.1	8.3
IMF	0.0	0.0	0.0	0.0	165.5	173.4	185.0
Bilateral Creditors[1]	89.4	77.4	73.2	68.5	64.2	62.8	58.4

	Year ended 31 December						30 September
	2016	2017	2018	2019	2020	2021	2022
				(€ million)			
Newly concluded credits	89.4	77.4	73.2	68.5	64.2	62.8	58.4
Private creditors	1,583.4	1,537.8	1,876.0	1,848.9	2,188.6	2,370.6	2,611.6
Eurobonds	1,220.0	1,220.0	1,628.3	1,628.3	2,150.0	2,350.0	2,600.0
Other private creditors ..	363.4	317.8	247.6	220.6	38.6	20.6	11.6
Government guaranteed debt(2)	839.4	810.7	842.7	929.9	920.0	999.9	1,070.4

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 guaranteed debt. External 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 67.0 and 31.5%, respectively, of total external general government debt as at 30 September 2022. The IBRD and the IDA are the principal multilateral creditors to which North Macedonia owed €428.9 million and €158.9 million, respectively, as at 30 September 2022.

Eurobond issuances and external loans

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 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 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.

In March 2021, the Government issued its eighth Eurobond in an aggregate principal amount of €700 million and bearing interest at 1.625%, maturing in March 2028. The eighth Eurobond was issued at the lowest rate historically, and the proceeds of the issuance were used for budget support in 2021 and 2022 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.

In September 2022, the Ministry of Finance issued German registered Notes (NSV) on the international capital markets in the amount of €250 million with a favourable interest rate (3.75% + 6-month Euribor) to ensure financial resources for budget deficit financing and refinancing public debt liabilities for 2022.

International Financial Institutions

As at 31 December 2021, approximately 31.5% 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 *"Economy of North Macedonia— Public Investments*".

International Monetary Fund

The Republic 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 to assist the Government in its response to the negative effects of the COVID-19 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.

On 2 August 2021, the Board of Governors of the IMF adopted the Resolution No. 76-1 "Allocation of Special Drawing Rights for the Eleventh Basic Period". This general allocation of Special Drawing Rights of SDR 456.5 billion (equivalent to about US$650 billion) became effective on 23 August 2021 with SDR 134,471,240 allocated for the Republic.

On 9 December 2021, the Parliament of the Republic, adopted the Law on Regulation of the Liabilities of the Republic to the IMF on the basis of using the funds from the General Allocation of SDR.

On 28 December 2021 an inflow of funds in the amount of €166,307,481 was recorded on the account of the National Bank on the basis of sale of SDR 134,471,240. On the same day, the funds were transferred to the account of the Ministry of Finance. The funds were used to finance budget expenditures and debt repayment.

In 2022, the Government made an agreement with the IMF for concluding a Precautionary and Liquidity Line, in the amount of SDR 406.87 million, or approximately €530 million. The first inflow of funds was in the amount of SDR 84.18 million and the funds were used to finance budget expenditures and debt repayment.

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. Commitments from the World Bank to the Republic as at 31 December 2022 totaled approximately US$2.7 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 have been 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 CERC 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. In this respect, an agreement with the World Bank was reached in February 2021 to provide additional funds in the amount of €37 million for the Local Roads Connectivity Project, in order to replenish the funds previously used through the CERC Project component. In 2021, Loan Agreements for the following three Projects were signed: Agriculture Modernization Project, Public Sector Energy Efficiency Project and Primary Education Improvement Project.

The World Bank supports development projects (also offering budget support), and along with a number of other IFIs, also supports projects with infrastructural, social, educational and other similar benefits. As at 30 September 2022, the Republic had a total of €163.1 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 economy of North Macedonia and the infrastructure of Republic. The total value of the finance contracts signed with EIB since 1998 amounted to €1.1 billion, of which €319.0 million represented the outstanding indebtedness of North Macedonia as at 30 September 2022 (with the debt of public enterprises amounting to €203.2 million). EIB projects have focused on loans, support for small and medium sized enterprises, infrastructure and energy loans. On 22 December 2021, EIB's funds were provided to implement the "Gas Interconnector Greece – North Macedonia, North Macedonia Part" Project between the Republic and Greece. Implementation of this Project will provide stability in the energy supply, above all in the field of industry, thus contributing to economic growth of all regions in the Republic.

European Bank for Reconstruction and Development

The EBRD has been active in the Republic since 1993. Since then, the EBRD has provided €2.5 billion in funding to 167 projects, with the majority of such funding being allocated to sustainable infrastructure, mainly in the transport and the energy sectors. On 21 December 2021, EBRD's funds were provided to begin construction on the western part of Road Corridor 8 – Phase I, one of the strategic projects geared toward increasing the Republic's competitiveness. By constructing the road infrastructure along Corridor 8, construction of Pan-European Corridor in the Republic will be completed, being significant for better connection of the Republic, Albania and Bulgaria with the other European countries.

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 30 September 2022, North Macedonia had a total of €98.7 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 30 September 2022.

Currency	As at 30 September 2022
EUR	70.4%
USD	0.1%

	As at 30 September 2022
Currency	
SDR[1]	5.4%
MKD	23.7%
JPY	0.4%

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

Note:

(1) Special drawing rights. The majority of payments on these are made in USD.

As at 30 September 2022, 70.4% 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 MKD 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, JSC ESM, the Development Bank of North Macedonia, PESR and Railways of RNM Transport and Infrastructure, North Macedonia provides guarantees to creditors on both domestic and foreign borrowing; as at 30 September 2022, this guaranteed public debt amounted to €1.075 billion, or 8.0% of GDP. The following table shows guaranteed public debt by borrower as at 30 September 2022.

	As at 30 September 2022	
	(€ million)	*% of GDP*[1]
Borrower		
JSC ESM	41.4	0.3%
JSC MEPSO	11.8	0.1%
PESR	777.8	5.7%
MBDP	210.4	1.6%
JSC Railways of RNM Transport	25.1	0.2%
PE Railways of RNM Infrastructure	0.2	0.002%
Public Transport Company Skopje	8.5	0.1%
Total	1,075.3	8.0%

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						30 September
	2016[(1)]	2017[(2)]	2018[(3)]	2019[(4)]	2020[(5)]	2021[(6)]	2022[(7)]
				(€ million)			
Domestic General Government Debt service	195.7	201.8	249.8	215.8	298.2	155.1	73.3
Principal	152.8	155.0	203.4	174.1	253.3	105.4	33.4
Interest	42.9	46.8	46.4	41.7	44.9	49.7	39.9
External General Government Debt service	260.0	226.7	340.5	186.5	518.8	692.8	151.6
Principal	190.2	136.4	261.1	95.6	433.0	594.4	65.0
Interest	69.8	90.3	79.4	90.9	85.8	98.4	86.6
Total General Government Debt service	455.7	428.5	590.3	402.3	817.0	847.9	224.9

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.

(6) Based on an exchange rate as at 31 December 2021 of €1 = MKD 61.6270.

(7) Based on an exchange rate as at 30 September 2022 of €1 = MKD 61.4950.

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 2021, annual payments on external general government debt amounted to €692.8 million included the repayment of the third Eurobond in the amount of €500.0 million and principal payments on outstanding external loans and interest payments on outstanding external loans. In 2022, annual payments on external general government debt were expected to be €207.4 million, of which €151.6 million had been realised as at 30 September 2022. The Government expects that payments of principal and interest on external government debt in 2023 and 2024 will total €731.9 million and €374.3 million, respectively.

Payments in 2023 are expected to include regular payments on outstanding loans, and repayment of the fifth Eurobond in the amount of €450.0 million respectively. Payments in 2024 are expected to include regular payments on outstanding loans.

As at 30 September 2022, 25.6% of the external general government debt was floating rate, and the remainder fixed rate. As at 30 September 2022, 23.2% of the domestic general government debt was floating rate while the remainder was fixed rate. For the same period, 24.7% of total general government debt was floating rate, while the remainder was fixed rate.

External General Government Debt Payments for 2023-2025

	Principal payments	Interest payments	Total
		(€ million)	
Period			
2023(1)	593.6	138.3	731.9
2024(2)	205.7	168.7	374.4
2025(2)	671.4	178.2	849.6

Notes:

(1) Estimates based on the Budget 2023.

(2) Estimates based on the revised FS23-25 (with prospects to 27).

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 30 September 2022, domestic general government debt amounted to €2.60 billion (19.2% of GDP) and constituted 40.1% of total general government debt. As at 30 September 2022, commercial banks held 34.9% of outstanding government issued securities, pension funds held 45.6% of outstanding government issued securities while other entities held 19.5%. The average time to maturity of the domestic central government debt as at 30 September 2022 was 7.7 years. The following tables set 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			
2023(1)	253.8	71.8	325.6
2024(2)	274.3	85.5	359.9
2025(2)	138.9	94.6	233.5

Notes:

(1) Estimates based on the Budget 2023.

(2) Estimates based on the revised FS23-25 (with prospects to 27).

Source: Ministry of Finance

Maturity Structure of Government securities

	Proportion of Outstanding Government Securities	
	As at 31 December 2017	As at 30 September 2022
Treasury bond maturity		
3 months	—	0.06%
6 months	3,02%	—
12 months	38.55%	22.07%
2 years	7.81%	2.63%
3 years	4.80%	8.03%
5 years	12.73%	5.89%
7 years	—	4.04%
10 years	8.98%	7.66%
15 years	24.11%	43.15%
30 years	—	6.47%

Maturity Structure of Government securities, as at 30 September 2022

	Proportion of Outstanding Government Securities
Treasury bond maturity	
Short term Government securities	22.13%
Long term Government securities	77.87%

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						As at 30 September	
	2016	2017	2018	2019	2020	2021	2022	Maturity
	(€ million)							
Structural Bonds	70.2	65.5	57.7	54.3	46.5	39.8	36.8	
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	—	—	—	—	—	—	—	
Denationalisation Bonds[(1)]	53.3	48.6	40.8	37.4	29.7	39.8	36.8	10 years

	As at 31 December					As at 30 September	
	2016	2017	2018	2019	2020	2021	2022	Maturity
				(€ million)				
Treasury Bills and Bonds	1,323.5	1,505.7	1,580.8	1,729.7	2,072.6	2,374.1	2,498.1	
Loans	0.0	0.0	0.0	0.0	0.0	0.0	50.0	
Municipal Debt	11.2	10.5	11.0	9.3	14/4	17.5	17.5	
Total Domestic General Government Debt	1,404.9	1,581.7	1,649.4	1,793.3	2,133.5	2,431.4	2,602.4	
Government Guaranteed Domestic Debt	20.5	17.7	15.0	12.3	9.5	7.5	4.8	

Notes:

(1) Represents bonds issued as compensation for the property nationalised on behalf of the state in the period from 1944 to 1991. Twenty issues of denationalisation bonds have taken place since 2002, each with a 2% interest rate, and further issues are expected in 2021 and 2022.

Source: Ministry of Finance

Domestic General Government Debt by Currency

Domestic general government debt is debt issued inside North Macedonia and, as of 30 September 2022, was denominated in Euro and MKD, with a breakdown of 40.8% and 59.2%, respectively. The share of Euro-denominated debt has decreased, primarily as a result an increasing volume of government issued securities denominated in MKD. 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 Euro exchange rate. The debt raised through such foreign exchange-linked securities is recorded as Euro-denominated debt.

Government Guaranteed Domestic Debt

As at 30 September 2022, government guaranteed domestic debt amounted to €4.8 million, representing a decrease of €2.7 million compared to 31 December 2021.

Debt Management Strategy

As at 30 September 2022, total public debt was equal to 56.6% 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. 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 2023-2027. Projections on debt stock and structure in the Revised Debt Management Strategy 2023-2025 (with 2027 prospects) are in line with the projections in the 2023-2025 Revised Fiscal Strategy (with 2027 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 COVID-19 pandemic.

For most of these economies, this has resulted in increased level of public debt by more than 10 percentage points. Due to the severity of the crisis induced by the COVID-19 pandemic, fiscal rules in the European Union were temporarily suspended until the end of 2022. Even though, in the course of 2022, the Republic has experienced increased level of public debt in absolute terms, as of 30 September 2022 it has not exceeded the 60% maximum limit of debt to GDP ratio 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 2022-2025 However, as a result of the Republic's fiscal consolidation measures, it is expected to return to the stipulated limit below 60% of GDP in 2026 and 2027.

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 and its well-capitalised and stable banking sector. On 28 October 2022, Fitch affirmed 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings of North Macedonia (with a negative outlook). On 27 January 2023, 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. This 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). This 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 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 an accrual basis U.S. Holder, the part of the period within each taxable year).

Under the second method, the accrual basis 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 amount of qualified stated 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 qualified stated interest.

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 payments on the Note that are not qualified stated interest. 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 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 (including OID)) 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.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the U.S. Treasury regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases generally is imposed on any U.S. taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

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. or U.S.-connected paying agent or other U.S. or U.S.-connected 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 SE (together, the "**Joint Lead Managers**") have, in a subscription agreement dated 9 March 2023 (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 99.023% of their principal amount, in the amounts as follows:

	Principal amount of Notes (€)
Joint Lead Managers	
Citigroup Global Markets Limited	125,000,000
Deutsche Bank AG, London Branch	125,000,000
Erste Group Bank AG	125,000,000
J.P. Morgan SE	125,000,000
Total	500,000,000

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, including in the event that certain conditions precedent are not delivered or met to their satisfaction on the Issue Date. In this situation, the issuance of the Notes may not be completed. Investors will have no rights against the Issuer or Joint Lead Managers in respect of any expense incurred or loss suffered in these circumstances. 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.

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, 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 exchange control 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 2 November 2020); and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian 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 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)(c)(ii) 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

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 2022.

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 2022 Budget.

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 7.250% per annum. 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 XS2582522681 and the common code is 258252268. In respect of the Rule 144A Notes the ISIN is XS2582524034 and the common code is 258252403.

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

Ministry of Finance of the Republic of North Macedonia
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