Republic of North Macedonia

Key Rating Drivers

Outlook Revised to Stable: Fitch Ratings revised the Outlook to Stable from Negative on North Macedonia's Long-Term Foreign-Currency Issuer Default Rating (IDR) in April. The economy has demonstrated resilience to the global pandemic and spillovers from the war in Ukraine. Macroeconomic stability has been maintained through adherence to a credible and consistent policy mix underpinned by the longstanding exchange rate peg to the euro, and near-term pressure on external finances has eased.

External Finances Absorb Shock: Fitch expects the large external financing requirement in 2023 to be met smoothly, supported by the pre-financing in March of a sovereign Eurobond maturity. Disbursements under the recently agreed IMF deal and other multilateral support will lift reserves further in 2023, although coverage of current external payments will remain below peers'. We forecast the current account plus net FDI to return to surplus in 2024.

Narrowing Fiscal Deficit: The general government deficit narrowed to 4.5% of GDP in 2022, reflecting solid revenue growth stemming from surprise inflation and the strong labour market. Spending growth was contained and the cost of energy support measures was below budget. Fitch expects the deficit to narrow to 3.9% in 2023 and 3.2% in 2024, owing to reduced energy-support spending, tax adjustment measures and a reviving economy. Part of these savings will be used to finance a large highway project. A new fiscal rule should take effect from 2025.

Path to Debt Stabilisation: Narrowing deficits will put North Macedonia on a path to debt stabilisation with Fitch forecasting government debt to reach 52% of GDP in 2023 ('BB' median 55.7%), up from 50.9% in 2022. Government debt is very exposed to exchange rate risk, as only 24% is local-currency denominated, although with a further 69% of government debt denominated in euros, these risks are mitigated by the credible exchange-rate peg.

High Inflation: An easing of pressure on the exchange rate has allowed the central bank to focus on measures to tackle inflation, which was 16.8% in February. The policy rate has been raised by 425bp since March 2022 (to 5.5%), while the countercyclical capital buffer has been increased twice to 0.75% (effective January 2024) with the additional goal of slowing mortgage lending. Tighter monetary policy and easing food and energy prices should cut inflation to an average of 8.3% in 2023 and 4.1% in 2024, compared with a 2012-2021 average of 1.3%.

Energy Shock Hits Growth: Real GDP growth was 2.1% in 2022, due to higher energy prices on specific sectors (notably metals) and its broader spillover to rising inflation, which hit consumer spending, together with a weakening European economy. Pressure on real incomes and sluggish demand from key trading partners will keep growth subdued in 2023 at 2.2%. Stronger external demand bolstered by construction of the 8/10d corridor will lift growth to 3.2% in 2024.

Political Polarisation: The domestic political environment remains fractious. Fitch believes it will be difficult for the government to secure the votes necessary for the constitutional change required for progress in EU accession. The process could therefore be delayed until after 2024 elections, although we believe it will remain a medium-term objective regardless of the election outcome. Governance, as measured by the World Bank, is comfortably above the 'BB' median.

Solid Banking Sector: The banking sector has remained solid and has not been affected by recent global stresses. Capital adequacy strengthened last year to 17.7% at end-year, non-performing loans fell to a long-term low of 2.9% at end-2022, and central bank stress tests show resilience to higher interest rates and energy prices

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

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B

Country Ceiling	BBB-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

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

Source: Fitch Ratings

Data

	2022
GDP (USDbn)	14
Population (m)	2.1

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2023)
Country Ceilings Criteria (July 2020)

Related Research

Fitch Revises North Macedonia's Outlook to Stable; Affirms at 'BB+' (April 2023)
Global Economic Outlook (March 2023)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on North Macedonia, Republic of

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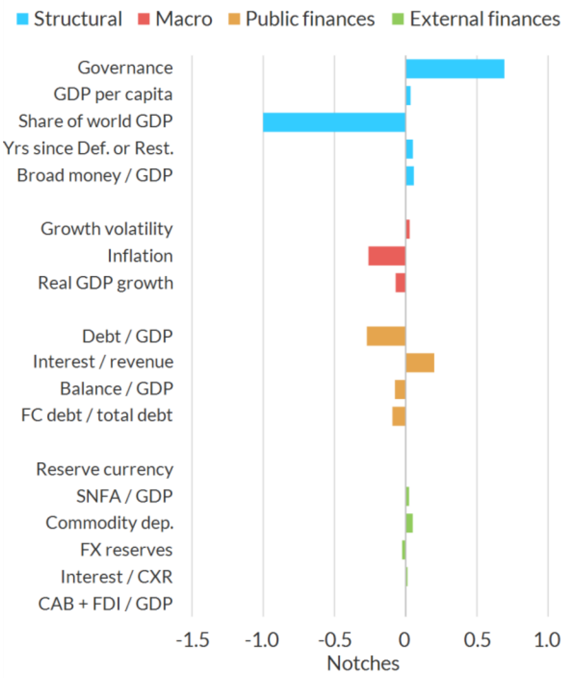
Rating Summary

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

Sovereign Rating Model: BB

Contribution of variables, relative to BB Median



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

Qualitative Overlay: +1

Adjustments relative to SRM data and output

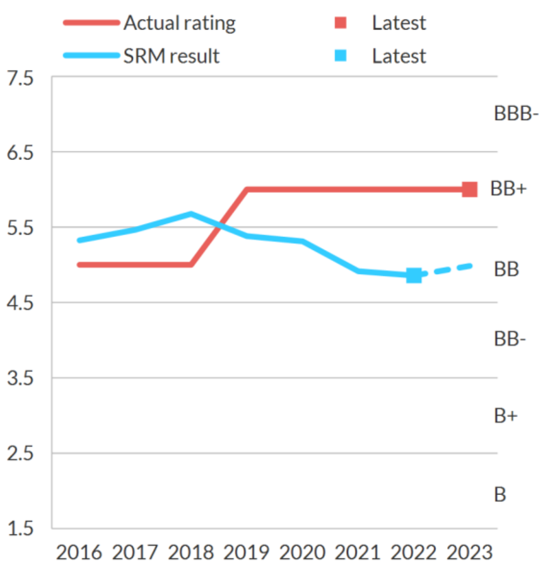
Structural features: No adjustment.

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

Public finances: No adjustment.

External finances: No adjustment.

Sovereign Rating Model Trend



Recent Rating Derivation History

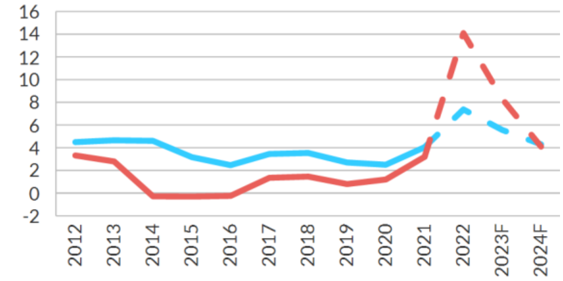
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	BB+	BB	0	+1	0	0
28 Oct 22	BB+	BB	0	+1	0	0
29 Apr 22	BB+	BB	0	+1	0	0
5 Nov 21	BB+	BB	0	+1	0	0
7 May 21	BB+	BB	0	+1	0	0
13 Nov 20	BB+	BB	0	+1	0	0
15 May 20	BB+	BB+	0	0	0	0
13 Dec 19	BB+	BB+	0	0	0	0
14 Jun 19	BB+	BB+	0	0	0	0
18 Jan 19	BB	BB+	-1	0	0	0

[a] The latest rating uses the SRM result for 2022 from the chart. This will roll forward to 2023 in July 2023).
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

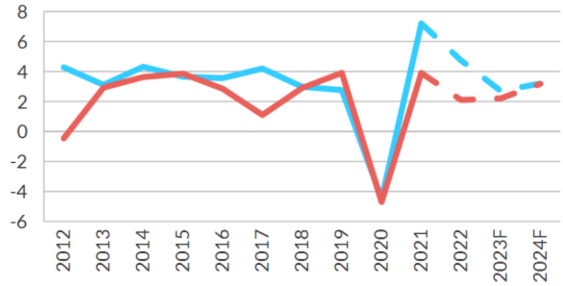
Peer Analysis

North Macedonia — BB Median

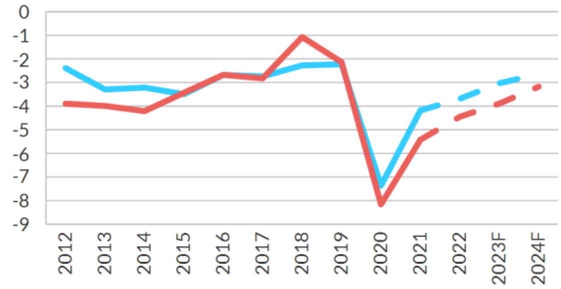
Consumer Price Inflation
(annual avg, %)



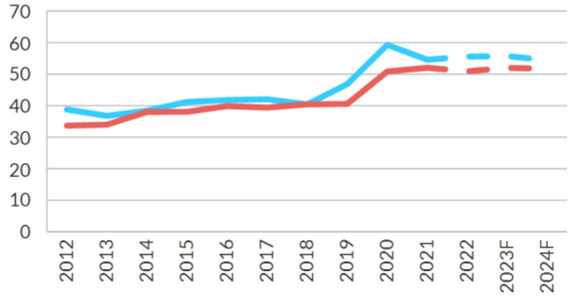
Real GDP Growth
(%)



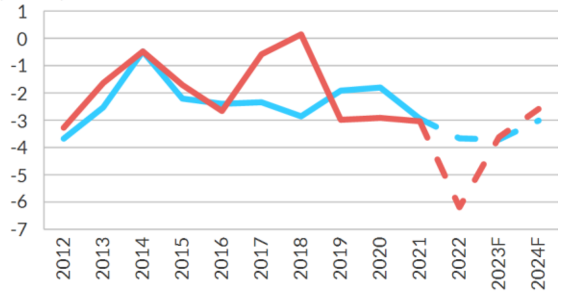
General Government Balance
(% GDP)



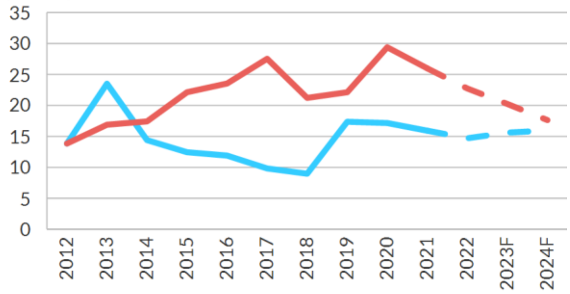
Gross General Government Debt
(% GDP)



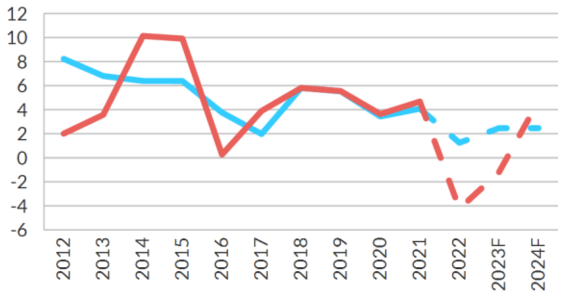
Current Account Balance
(% GDP)



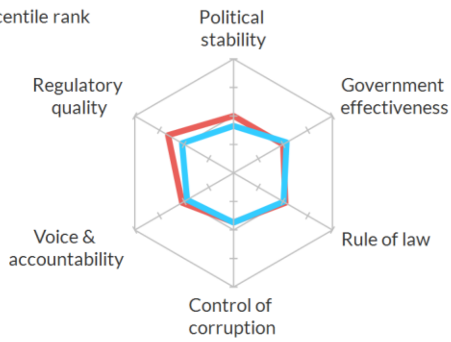
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



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

Peer Analysis

2022[a]	North Macedonia	BB median	BBB median	B median
Structural features				
GDP per capita (USD) [SRM]	6,564	6,612	13,118	4,721
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	52.4	43.4	58.2	36.9
Human development index (percentile, latest)	59.4	52.6	67.2	36.5
Broad money (% GDP) [SRM]	68.9	48.0	62.8	36.5
Private credit (% GDP, 3-year average)	53.0	39.5	57.3	23.9
Dollarisation ratio (% bank deposits, latest)	46.3	35.9	16.3	30.2
Bank system capital ratio (% assets, latest)	17.7	16.3	15.6	16.1
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	2.7	3.8	3.3	4.2
Real GDP growth volatility (complex standard deviation) [SRM]	2.8	3.0	3.3	3.4
Consumer price inflation (%, 3-year average) [SRM]	8.5	4.7	3.2	5.5
Unemployment rate (%)	14.5	8.9	7.8	7.9
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-4.6	-2.9	-2.4	-3.7
Primary balance (% GDP, 3-year average)	-3.3	-0.9	-0.5	-1.4
Interest payments (% revenue, 3-year average) [SRM]	4.0	8.6	7.5	9.2
Gross debt (% revenue, 3-year average)	160.0	157.4	146.1	228.7
Gross debt (% GDP, 3-year average) [SRM]	51.6	39.6	36.6	50.6
Net debt (% GDP, 3-year average)	46.8	33.8	31.0	44.9
FC debt (% gross debt, 3-year average) [SRM]	75.9	63.0	36.4	63.5
External finances[c]				
Current account balance (% GDP, 3-year average)	-4.3	-2.6	-1.8	-3.7
Current account balance + net FDI (% GDP, 3-year average) [SRM]	-0.3	0.8	0.7	-1.3
Commodity dependence (% CXR) [SRM]	9.6	21.4	19.6	32.1
Gross external debt (% GDP, 3-year average)	77.1	46.9	52.9	48.9
Net external debt (% GDP, 3-year average)	23.0	10.4	8.9	20.4
Gross sovereign external debt (% GXD, 3-year average)	38.9	43.6	29.7	58.0
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	0.1	-2.1	2.5	-16.3
External interest service (% CXR, 3-year average) [SRM]	1.9	3.8	4.1	3.8
Foreign-exchange reserves (months of CXP) [SRM]	3.6	4.5	5.0	4.0
Liquidity ratio	195.5	142.5	141.6	162.5

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

Supplementary Information

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

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

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

Rating Factors

Strengths

- A credible policy mix consistent with the long-standing exchange-rate peg to the euro.
- Governance and human development indicators are more favourable than the median of 'BB' category peers.
- Commodity dependence is low but it is a highly open economy with a high dependence on the eurozone.
- The banking sector has been resilient to political uncertainty and significant economic shocks.

Weaknesses

- The economy is exposed to exchange-rate risk. About 75% of government debt is denominate d in foreign currency.
- Euroisation is also present in the banking sector, accounting for around 46.4% of deposits at end-2022.
- Net external debt/GDP and a highly negative international investment position are higher than the 'BB' median.
- Unemployment is structurally high, at 14.4% at end-2022, reflecting a large informal economy and skills shortages.

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

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finances:** Materially higher-than-forecast general government debt/GDP over the medium term, for example, due to weaker growth prospects or expectations of a more prolonged fiscal loosening.
- **Macro and External Finances:** Persistently high inflation, low growth and a deterioration in the external position that exerts pressure on foreign-currency reserves and/or the currency peg against the euro.
- **Structural**: Adverse political developments that negatively affect governance standards, the economy and EU accession progress.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Structural and Macro:** Improvement in medium-term growth prospects and/or governance standards, for example, due to progress towards EU accession and reduction in political and policy risk.
- **Public Finances:** A sharp and sustained decline in general government debt/GDP, reflecting the implementation of fiscal reforms.

Forecast Summary

	2019	2020	2021	2022	2023F	2024F
Macroeconomic indicators and policy						
Real GDP growth (%)	3.9	-4.7	3.9	2.1	2.2	3.2
Unemployment (%)	17.4	16.6	15.4	14.4	14.2	14.0
Consumer price inflation (annual average % change)	0.8	1.2	3.2	14.1	8.3	4.1
Policy interest rate (annual average, %)	2.3	1.7	1.3	2.3	5.7	4.7
General government balance (% GDP)	-2.1	-8.2	-5.4	-4.5	-3.9	-3.2
Gross general government debt (% GDP)	40.6	50.8	52.0	50.9	52.0	51.7
MKD per USD (annual average)	54.9	54.1	52.1	58.6	58.2	58.7
Real private credit growth (%)	5.5	3.6	4.7	-4.2	-1.2	4.7
External finance						
Merchandise trade balance (USDbn)	-2.2	-2.1	-2.8	-3.6	-3.3	-3.1
Current account balance (% GDP)	-3.0	-2.9	-3.0	-6.2	-3.6	-2.6
Gross external debt (% GDP)	72.4	84.8	77.4	79.5	74.3	71.3
Net external debt (% GDP)	22.1	29.4	26.0	22.7	20.2	17.6
External debt service (principal + interest, USDbn)	0.7	1.2	1.6	1.0	1.6	1.4
Official international reserves including gold (USDbn)	3.7	4.1	4.1	4.1	4.1	4.2
Gross external financing requirement (% international reserves)	26.9	37.2	42.9	38.9	44.7	34.8
Real GDP growth (%)						
US	2.3	-2.8	5.9	1.9	1.0	0.8
China	6.0	2.2	8.4	3.0	5.2	4.8
Eurozone	1.3	-6.4	5.4	3.5	0.8	1.4
World	2.6	-3.3	6.1	2.7	2.0	2.4
Oil (USD/barrel)	64.1	43.3	70.6	98.6	85.0	75.0

F – Forecast
Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(MKDbn)	2022	2023
Uses	**40.9**	**49.8**
Budget deficit	35.4	34.2
MLT amortisation	5.6	15.6
Domestic	5.6	15.6
External	0.0	0.0
Sources	**40.9**	**49.8**
Gross borrowing	22.1	64.5
Domestic	15.4	45.8
External	6.6	18.6
Privatisation	0.0	0.0
Other	19.3	-14.7
Change in deposits (- = increase)	-0.5	0.1

Source: Fitch Ratings

External Finances

(USDbn)	2022	2023
Uses	**1.6**	**1.8**
Current account deficit	0.8	0.5
MLT amortisation	0.8	1.3
Sovereign	0.1	0.6
Non-sovereign	0.7	0.7
Sources	**0.9**	**1.8**
Gross MLT borrowing	1.2	1.8
Sovereign	0.4	0.9
Non-sovereign	0.8	0.9
FDI	0.7	0.5
Other	-0.8	-0.5
Change in FX reserves (- = increase)	-0.2	0.0

Source: Fitch Ratings

Credit Developments

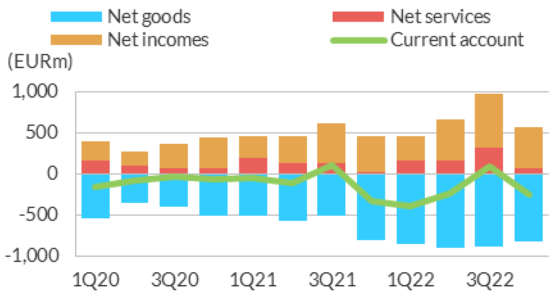
External Finances Resilient to Energy Price Shock

The external sector was resilient to the jump in the import bill from higher energy prices. Higher imports pushed the current account deficit to a 12-year high of 6.2% of GDP, but strong inflows of net FDI and new external financing meant official reserves rose by EUR220 million (stable in USD terms). About 90% of the widening in the trade deficit (by 6.6% of GDP) was due to higher energy and food imports. The impact on the CAD was partly offset by strong services and remittance inflows, which were both around 50% higher than 2019 levels.

For services, growth in transport and ICT was robust, in addition to a further recovery in tourism. The increase in remittances may capture the higher use of official channels. The 25% rise in exports last year reflected price effects.

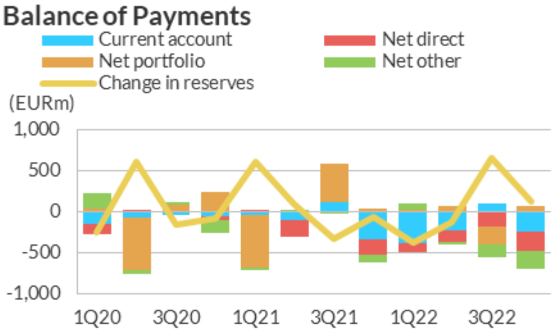
Net FDI was well above the recent average in 2022, at 5.2% of GDP. Inflows remain dominated by Europe and the sectoral orientation is broadening; manufacturing (largely vehicle related) was just over half the 2022 inflow, followed by financial and retail services. The first disbursement from the new precautionary and liquidity line (PLL) approved by the IMF in November (of EUR110 million) also supported reserve accumulation. The central bank was able to resume FX purchases in the second half of the year, after selling to meet corporate demand in H1, with total net sales in 2022 of EUR160 million.

Current Account



Source: Fitch Ratings, National Bank of North Macedonia

Balance of Payments



Source: Fitch Ratings, National Bank of North Macedonia

The external financing requirement will remain large this year, but Fitch expects this to be met smoothly. Although the CAD is forecast to narrow to 3.6% of GDP as lower energy and food prices reduce the trade deficit, the sovereign faces an EUR450 million Eurobond amortisation in July. The pre-financing of this maturity took place in March with the sovereign raising EUR500 million. However, the process was not smooth.

The sovereign raised EUR600 million in February, but this had to be cancelled as a reshuffle meant there was no minister of justice in place to sign the documents. As financing costs had increased when the deal was reopened, the authorities chose to cut the size of the issuance to keep the interest costs unchanged. Demand was stronger in March (EUR2.1 billion) than February (EUR1.7 billion): EUR600 million was the financing assumption from the PLL, but prospects for the balance of payments have improved since the PLL was approved (the 2022 CAD assumption was 7.5% of GDP).

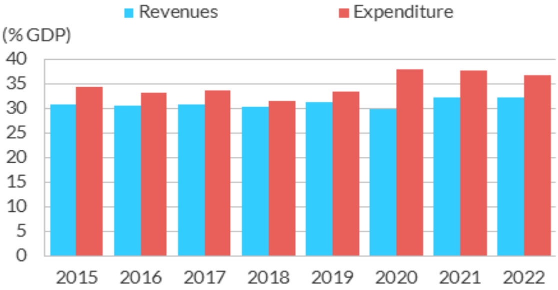
The authorities plan to draw the EUR155 million available in the next tranche of the PLL in May and treat the remaining tranches as precautionary. A delay in the completion of one of the structural benchmarks necessary to complete the review of the PLL is not seen as barrier to disbursement. Macro-financial assistance of EUR100 million from the EU has also been secured, with disbursements linked to the PLL. In addition, the government is in discussion with other IFIs (no additional commitments were incorporated in PLL documentation) and has deposits of around EUR160 million. A decline in reserves over the first two months of 2023 is in line with season trends.

Revenue Growth and Contained Spending Lower Fiscal Deficit

The general government deficit narrowed to 4.5% of GDP in 2022, from 5.4% in 2021. This was the same as the central government outturn and inside the revised central government deficit target of 5.3% from June. The improvement reflects revenue growth (10.3%) outpacing the rise in spending (7.5%). Tax revenue climbed by 11.2% boosted by surprise inflation lifting VAT, PIT benefitting from wage growth and the strong labour market, as well as the post-Covid-19 recovery lifting CIT (tax is paid on profits from the previous year).

The rise in expenditure reflected contained increases in current spending (7.1%), notably wages (4.4%), some of which was reallocated to energy support measures that cost less than budgeted. Capital expenditure continued to underperform targets (88% of the revised budget target) but execution improved compared to 2021.

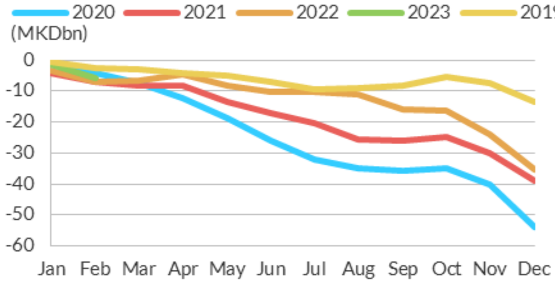
General Government Finances



Source: Fitch Ratings, Ministry of Finance

Fiscal Performance

Central government, cumulative



Source: Fitch Ratings, Ministry of Finance

The 2023 budget targets a deficit of 3.4% of GDP, with a reduction in temporary energy-related support measures and tax reform accommodating an increase in capital spending. It was the first drawn up under the organic budget law that was approved in September. Central government performance over the first two months of 2023 (deficit of 0.6% of GDP) is in line with the deficit target, however the dynamics of the budget have differed from the initial plans.

Lower international energy prices mean spending on energy support measures was only EUR14 million in the first quarter, compared to a budgeted full year leave of EUR225 million. In contrast, a political logjam has prevented the implementation of key elements of the tax reform. The authorities were planning to raise 0.5% of GDP this year largely through eliminating some tax deductions, reliefs and preferential tax rates and regimes, but so far only those to PIT (the smallest source of additional revenue) have been implemented.

Planned changes to VAT and CIT (two separate bills) are still in parliament. However, the lag in CIT payments means the full-year deficit target may still be exceeded. A planned windfall tax, which is not part of the IMF programme, is also stuck in parliament.

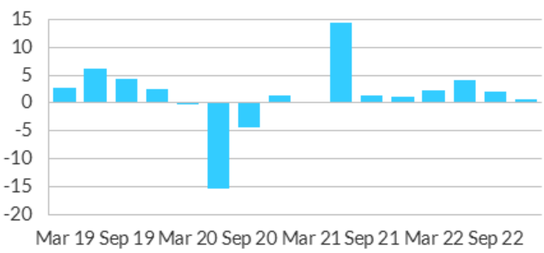
Central to the planned increase in capital spending is the corridor 8/10d highway project, which is expected to cost EUR1.3 billion (about 10% of 2022 GDP) over five years. This is to be fully financed from the budget and, while it addresses an important infrastructure gap, it will pose expenditure management challenges. In addition, the authorities plan to lift defence spending to 2% of GDP in 2024, from 1.85% in 2022.

GDP Growth

Real GDP growth was 2.1% in 2022, with the annual rate of increase slowing to 0.6% in Q4. Slowing growth (from 3.9% in 2021) reflected the impact of higher energy prices on specific sectors (notably metals) and its broader spillover to rising inflation, which hit consumer spending. Private consumption remained solid, expanding by 3.1%, due to wage and credit growth, a solid labour market and a strong inflow of remittances. Investment was the fastest-growing expenditure component in 2022, but also slowed over the course of the year, reflecting the frontloading of spending on raw materials in anticipation of higher prices (inventories are captured under investments).

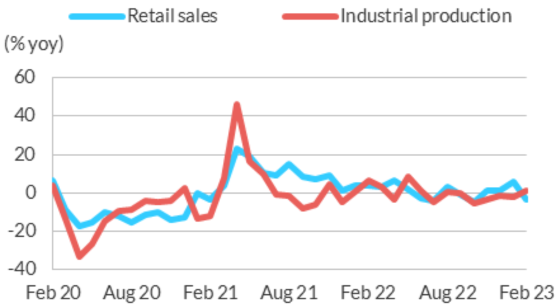
Real GDP Growth

(% yoy)



Source: Fitch Ratings, State Statistical Office

High Frequency Indicators



Source: Fitch Ratings, State Statistical Office

Pressure on real incomes and sluggish demand from the country's main trading partners will keep growth subdued in 2023. Data for the first two months of 2023 point to a continuation of the trends from the second half last year, with industrial production falling (by an average of 0.5% in January-February, yoy) and retail sales also dropping (by 0.9% yoy in real terms over the same period). A jump in new building permits points to a revival in construction, which was the weakest performing sector last year. The construction sector will also be boosted by the commencement of work on the 8/10 corridor, although the large import component will dampen the overall impact on growth.

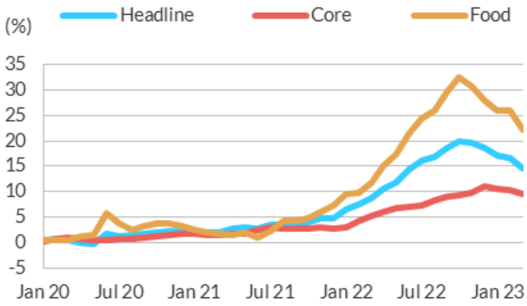
Inflation Easing as Monetary Policy Tightened

Headline inflation has been trending down from a peak of 19.8% in October 2022, to 14.7% in March, and is set to fall further over 2023 due to easing food and energy prices and tighter monetary policy. The openness of the economy and relatively high weight of food and energy in the consumer price index (51%) pushed inflation up rapidly in 2022. A lack of competition in local supply chains and the retail sector has also added to inflation and a recently introduced temporary price freeze for some foodstuffs is expected to squeeze profit margins.

Core inflation appears to have stabilised and was 10.4% in February. Planned tax and tariff adjustments and wage pressures will likely keep core inflation elevated over 2023. Two-year inflation expectations (4.3% in the central bank's December survey) have been relatively stable.

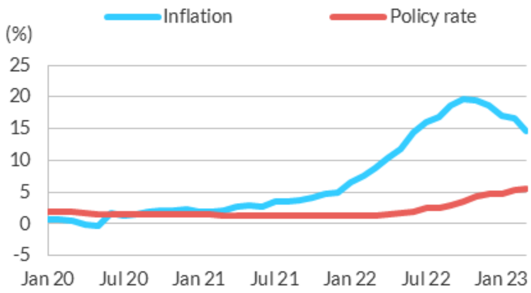
The easing of pressure in the foreign exchange market allowed the central bank to focus on tackling inflation. The policy rate has been raised by 425bp since March 2022 (to 5.5%), while the countercyclical capital buffer has been increased twice to 0.75% (effective January 2024) with the additional goal of slowing mortgage lending. Around 70% of the loan portfolio is at variable interest rates, but banks only adjust the rates on household loans every six months and transmission is further impaired by the high level of euroisation. The pace of tightening was slowed in March to 25bp owing to the downward trend for inflation and narrowing spread with inflation in the EU.

Inflation



Source: Fitch Ratings, State Statistical Office

Inflation and Policy Rate



Source: Fitch Ratings, State Statistical Office, NBNM

Domestic Politics Hindering EU Accession Process

Domestic political fractiousness has stalled progress on EU accession and hindered the passage of legislation, including tax reforms. A reshuffle in February gave the government an unchanged, but more stable majority of 65 of the 120 seats in parliament, although does provide a path to the 80 votes required for the constitutional changes needed to advance EU accession. The reshuffle has so far not prevented further obstructiveness by the opposition, which heads the parliamentary finance committee. The opposition is pushing for early elections (the next elections are due in 2024) and is ahead in opinion polls.

Progress in EU accession is dependent, among other things, on a change in the constitution to include Bulgarians as an ethnic minority. There is not a deadline for this change, but it appears unlikely that this can be achieved by informal target of an intergovernmental conference with the EU in October. Constitutional amendment would then prove tough ahead of elections and would likely take time for a new government to implement. The opposition does not appear to have deeply rooted objections to EU accession, but is unlikely to support the process ahead of elections for political reasons.

The government is making progress on rule of law and other accession-related reforms. Public support for EU accession has dropped. EU engagement with the Western Balkans has been stepped up recently.

Banking Sector Remains Healthy

The banking sector has remained solid and has not been affected by recent global stresses. Capital adequacy strengthened last year to 17.7% at end-year (Tier 1 capital of 16.6%), from 17.3%, and return on equity was 12.2%. Non-performing loans fell to a long-term low of 2.9% at end-2022, with provisioning of 69.4%, while central bank stress tests show resilience to higher interest rates and energy prices. The increase in foreign currency deposits in the first quarter of 2022 is being slowly unwound (46.4% at end-2022 from 47.4% at end-Q1 and 45% at end-2021).

Public Debt Dynamics

According to Fitch's baseline projections, gross general government debt/GDP will be relatively stable from 2023. A failure to reduce the primary budget deficit would be the biggest risk to debt stability based on Fitch's stylised scenarios.

Debt Dynamics - Fitch's Baseline Assumptions

	2021	2022	2023	2024	2025	2026	2027
Gross general government debt (% of GDP)	52.0	50.9	52.0	51.8	51.9	52.7	53.5
Primary balance (% of GDP)	-4.2	-3.3	-2.4	-1.5	-1.5	-1.5	-1.5
Real GDP growth (%)	3.9	2.1	2.2	3.2	3.5	3.5	3.5
Average nominal effective interest rate (%)	2.7	2.4	2.6	3.3	3.8	4.1	4.2
MKD/USD (annual avg.)	52.1	58.6	58.2	58.7	58.7	58.7	58.7
GDP deflator (%)	3.6	8.1	8.0	4.0	3.0	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	1.9	0.0	0.0	0.0	0.0

Source: Fitch Ratings

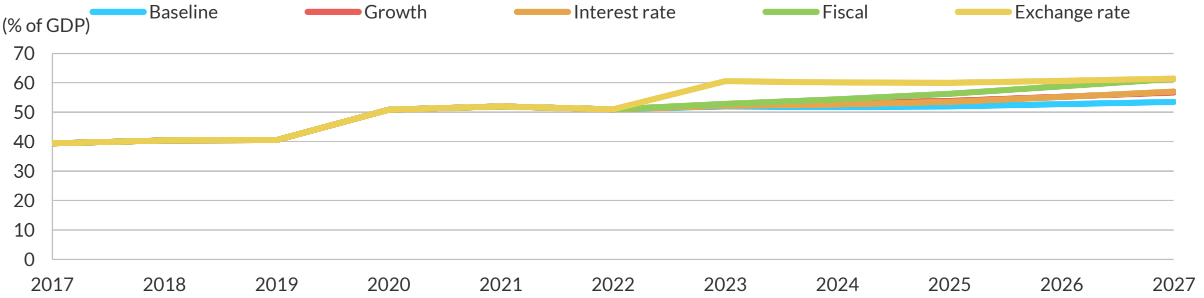
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.3% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit of 3.3% of GDP starting 2023
Exchange rate	30% devaluation at end-2023

Source: Fitch Ratings

Sensitivity Analysis

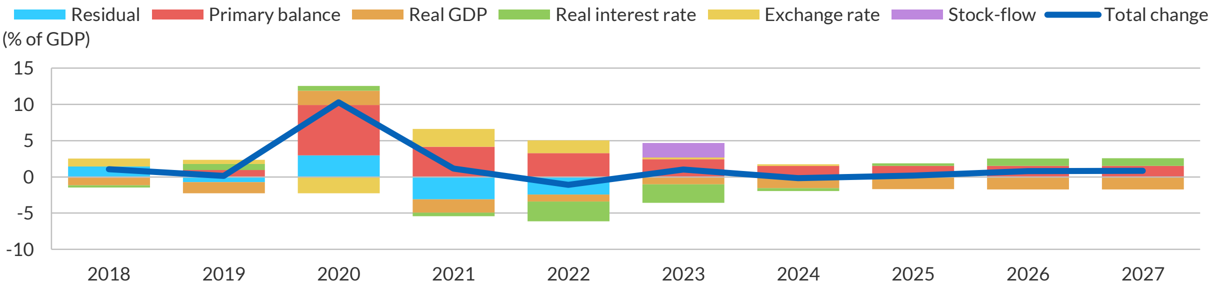
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows

Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

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

Data Tables

General Government Summary

(% GDP)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Revenue	30.6	31.0	30.4	31.4	29.9	32.4	32.4	32.0	32.5
Expenditure	33.2	33.8	31.5	33.5	38.1	37.8	36.9	35.9	35.6
o/w interest payments	1.2	1.4	1.2	1.2	1.2	1.3	1.2	1.5	1.7
Interest payments (% revenue)	3.8	4.4	3.9	3.7	4.0	3.9	3.6	4.6	5.1
Primary balance	-1.5	-1.5	0.1	-1.0	-7.0	-4.2	-3.3	-2.4	-1.5
Overall balance	-2.7	-2.8	-1.1	-2.1	-8.2	-5.4	-4.5	-3.9	-3.2
Gross government debt	39.9	39.4	40.4	40.6	50.8	52.0	50.9	52.0	51.7
% of government revenue	130.4	127.2	133.0	129.3	169.9	160.5	157.1	162.3	159.4
Domestic debt	14.5	15.7	15.3	15.9	19.7	20.8	20.1	21.6	21.9
External debt	25.3	23.6	25.1	24.6	31.2	31.2	30.8	30.3	29.8
Local currency	8.8	8.5	8.6	9.9	11.9	12.2	11.9	12.2	12.1
Foreign currency	31.0	30.8	31.8	30.6	38.9	39.8	39.0	39.8	39.6
Central government deposits	5.7	3.8	5.6	4.8	6.7	5.3	4.8	4.4	4.2
Net government debt	34.1	35.6	34.8	35.7	44.1	46.8	46.1	47.6	47.5
Financing		2.8	1.1	2.1	8.2	5.4	4.5	3.9	3.2
Domestic borrowing		1.8	0.6	1.3	3.2	2.5	1.2	3.4	1.7
External borrowing		2.4	1.9	0.1	8.5	-0.1	0.8	2.1	1.4
Other financing		-1.3	-1.4	0.7	-3.5	3.0	2.4	-1.7	0.1
Change in deposits (- = increase)		1.8	-2.1	0.5	-1.7	1.0	-0.1	0.0	-0.2
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		-3.1	0.7	0.2	-1.8	2.0	2.4	-1.7	0.3

F – Forecast
Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Current account	-0.3	-0.1	0.0	-0.4	-0.4	-0.4	-0.8	-0.5	-0.4
% GDP	-2.7	-0.6	0.1	-3.0	-2.9	-3.0	-6.2	-3.6	-2.6
Goods	-2.0	-2.0	-2.1	-2.2	-2.1	-2.8	-3.6	-3.3	-3.1
Services	0.4	0.4	0.4	0.4	0.5	0.6	0.8	0.8	0.7
Primary income	-0.4	-0.4	-0.5	-0.6	-0.5	-0.6	-0.6	-0.6	-0.7
Secondary income	1.8	2.0	2.2	2.0	1.7	2.4	2.6	2.6	2.7
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.6	0.1	-0.5	-0.7	-0.5	-0.7	-1.0	-0.6	-0.5
Direct investment	-0.3	-0.2	-0.7	-0.4	-0.2	-0.5	-0.7	-0.5	-0.6
Portfolio investment	-0.5	0.0	-0.4	0.2	-0.3	-0.1	0.0	-0.1	-0.1
Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.2	0.3	0.6	-0.5	0.0	-0.1	-0.3	0.1	0.2
Net errors and omissions	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.0
Change in reserves (+ = increase)	0.4	-0.2	0.7	0.4	0.1	0.4	0.2	0.0	0.0
International reserves, including gold	2.8	2.8	3.3	3.7	4.1	4.1	4.1	4.1	4.2
Liquidity ratio (%)	182.9	193.7	142.5	213.3	173.1	165.7	195.5	136.8	167.6
Memo									
Current external receipts (CXR)	7.5	8.5	10.1	10.1	9.2	11.9	13.1	13.3	13.7
Current external payments (CXP)	7.8	8.6	10.1	10.5	9.5	12.3	13.9	13.8	14.2
CXR growth (%)	7.7	13.8	18.7	0.2	-9.3	29.3	10.0	1.7	3.4
CXP growth (%)	9.1	10.5	17.6	4.1	-9.2	28.8	13.0	-0.5	2.4
Gross external financing requirement	1.0	0.7	1.1	0.9	1.4	1.8	1.6	1.8	1.4
% International reserves	38.5	25.0	37.9	26.9	37.2	42.9	38.9	44.7	34.8
Net external borrowing	0.9	0.1	0.5	0.6	0.8	1.4	1.0	0.7	0.6

F – Forecast
Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Gross external debt	7.6	8.8	9.0	9.1	10.5	10.7	10.8	11.2	11.4
% GDP	71.2	78.0	70.8	72.4	84.8	77.4	79.5	74.3	71.3
% CXR	101.6	103.5	88.8	90.0	114.1	90.1	82.6	84.2	83.3
Short-term debt (% GXD)	13.0	14.0	13.8	14.3	13.0	14.4	18.8	14.3	14.3
By debtor									
Sovereign	2.7	3.1	3.3	3.2	4.1	4.1	4.1	4.4	4.6
Monetary authorities	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.1
General government	2.6	3.1	3.2	3.1	4.0	3.8	3.9	4.2	4.5
Banks	0.6	0.7	0.7	0.7	0.9	0.9	1.0	1.1	1.2
Other sectors	4.2	5.0	5.0	5.1	5.5	5.6	5.6	5.6	5.6
Gross external assets (non-equity)	5.1	5.7	6.3	6.3	6.9	7.1	7.7	8.1	8.6
Sovereign	2.8	2.8	3.3	3.7	4.1	4.2	4.3	4.3	4.3
International reserves, including gold	2.8	2.8	3.3	3.7	4.1	4.1	4.1	4.1	4.2
Other sovereign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Banks	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.9	0.9
Other sectors	1.6	2.1	2.2	2.0	2.0	2.1	2.6	3.0	3.3
Net external debt	2.5	3.1	2.7	2.8	3.6	3.6	3.1	3.0	2.8
% GDP	23.5	27.5	21.2	22.1	29.4	26.0	22.7	20.2	17.6
Sovereign	0.0	0.3	0.0	-0.4	0.0	0.0	-0.1	0.2	0.3
Banks	-0.1	-0.1	-0.2	0.0	0.1	0.1	0.2	0.2	0.3
Other sectors	2.6	2.9	2.8	3.2	3.5	3.5	3.0	2.6	2.3
International investment position									
Assets	5.5	6.2	6.8	6.9	7.6	8.0	8.7	9.1	9.7
Liabilities	11.3	13.2	13.7	14.1	16.1	16.2	16.3	16.9	17.3
Net	-5.9	-7.0	-6.9	-7.2	-8.5	-8.2	-7.7	-7.8	-7.6
Net sovereign	0.0	-0.3	0.0	0.4	0.0	0.0	0.1	-0.2	-0.3
% GDP	0.2	-3.1	-0.3	3.4	0.0	0.3	1.0	-1.1	-1.8
External debt service (principal + interest)	0.8	0.8	1.3	0.7	1.2	1.6	1.0	1.6	1.4
Interest (% CXR)	2.2	2.0	2.0	1.9	2.3	2.0	1.7	1.9	2.6

F – Forecast
Source: Fitch Ratings, central bank, IMF, World Bank

External Debt Service Schedule on Medium- and Long-Term Debt at End-2022

(EUR bn)	2023	2024	2025	2026	2027
Sovereign: Total debt service	0.7	0.5	1.0	1.3	1.1
Amortisation	0.6	0.3	0.8	1.0	0.9
Official bilateral	0.0	0.0	0.0	0.0	0.0
Multilateral	0.1	0.2	0.2	0.3	0.4
Bonds	0.5	0.1	0.6	0.7	0.5
Interest	0.1	0.2	0.2	0.2	0.3

Source: Fitch Ratings, Ministry of Finance,

Full Rating Derivation

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

Sovereign Rating Model					Applied Rating[d]			BB
					Model Result and Predicted Rating			4.86 = BB
Input Indicator	Weight (%)	2021	2022	2023	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								**3.30**
Governance indicators (percentile)	21.4	n.a.	52.4	n.a.	-	52.4	0.077	4.05
GDP per capita (USD)	12.4	n.a.	6,564	n.a.	Percentile	33.1	0.038	1.27
Nominal GDP (% world GDP)	13.9	n.a.	0.01	n.a.	Natural log	-4.3	0.627	-2.67
Most recent default or restructuring	4.6	n.a.	2000	n.a.	**Inverse 0-1[a]**	0.0	-1.822	-0.01
Broad money (% GDP)	1.2	n.a.	68.9	n.a.	Natural log	4.2	0.158	0.67
Macroeconomic performance, policies and prospects								**-1.16**
Real GDP growth volatility	4.6	n.a.	2.8	n.a.	Natural log	1.0	-0.728	-0.76
Consumer price inflation	3.4	3.2	14.1	8.3	**3-year averageg.[b]**	8.5	-0.067	-0.58
Real GDP growth	2.0	3.9	2.1	2.2	3-year average	2.7	0.065	0.18
Public finances								**-2.10**
Gross general government debt (% GDP)	8.9	52.0	50.9	52.0	3-year average	51.6	-0.023	-1.17
General government interest (% revenue)	4.5	3.9	3.6	4.6	3-year average	4.0	-0.044	-0.18
General government fiscal balance (% GDP)	2.4	-5.4	-4.5	-3.9	3-year average	-4.6	0.044	-0.20
FC debt (% of total general govt debt)	2.7	73.4	77.8	76.6	3-year average	75.9	-0.007	-0.55
External finances								**0.05**
Reserve currency (RC) flexibility	7.3	n.a.	0.0	n.a.	**RC score 0 - 4.5[c]**	0.0	0.509	0
SNFA (% of GDP)	7.4	0.3	1.0	-1.1	3-year average	0.1	0.011	0.00
Commodity dependence	1.2	n.a.	9.6	n.a.	Latest	9.6	-0.004	-0.04
FX reserves (months of CXP)	1.5	n.a.	3.6	n.a.	n.a. if RC score> 0	3.6	0.029	0.10
External interest service (% CXR)	0.4	2.0	1.7	1.9	3-year average	1.9	-0.007	-0.01
CAB + net FDI (% GDP)	0.1	0.2	-1.0	-0.2	3-year average	-0.3	0.001	-0.00
Intercept Term (constant across all sovereigns)								**4.76**

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

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

Source: Fitch Ratings

About the SRM and QO

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

Supplementary Ratings

Local-Currency Rating

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

Country Ceiling

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

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
14 Apr 23	BB+	B	Stable	BB+	B	Stable	BBB-
15 May 20	BB+	B	Negative	BB+	B	Negative	BBB-
14 Jun 19	BB+	B	Stable	BB+	B	Stable	BBB-
02 Feb 18	BB	B	Positive	BB	B	Positive	BB+
19 Aug 16	BB	B	Negative	BB	B	Negative	BB+
22 Jul 16	BB+	B	Negative	BB+	B	Negative	BBB-
21 Aug 15	BB+	B	Negative	BB+	-	Negative	BBB-
27 Oct 10	BB+	B	Stable	BB+	-	Stable	BBB-
21 May 09	BB+	B	Negative	BB+	-	Negative	BBB-
04 Nov 08	BB+	B	Stable	BB+	-	Stable	BBB-
14 Aug 07	BB+	B	Positive	BB+	-	Positive	BBB-
17 Aug 06	BB+	B	Stable	BB+	-	Stable	BBB-
13 Jun 06	BB+	B	Stable	BB+	-	Stable	BB+
01 Nov 05	BB	B	Positive	BB	-	Positive	BB

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

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

Source: Fitch Ratings

About ESG Credit Relevance Scores

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

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

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

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

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

Credit-Relevant ESG Derivation

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

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

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

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

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

Appendix 2: Data Notes and Conventions

Acronyms

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

Medians

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

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

Notes for North Macedonia, Republic of

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

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

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

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.