North Macedonia

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This report does not constitute a rating action.

Ratings Score Snapshot

Sovereign credit rating
Foreign currency
BB-/Stable/B
Local currency
BB-/Stable/B

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Parliamentary and presidential elections are scheduled to take place this spring.	Despite increasing over the past few years, public debt remains moderate and will stabilize at about 53% of GDP over 2024-2027.
-- S&P Global Ratings expects GDP growth to accelerate to 2.9% in 2024 and remain at about 3% in the long term.	-- The budget deficit will remain somewhat elevated in 2024, at roughly 3.7% of GDP, but will continue to narrow over the coming years.
-- A technocratic administration will continue to govern until elections take place.	-- We anticipate the current account deficit will remain at about 2% of GDP during 2024-2027, in line with the trend in the previous decade.

Overview

Institutional and economic profile	Flexibility and performance profile
--While the EU accession talks are ongoing, the challenge of enacting constitutional amendments remains a significant obstacle in the process.	-- International reserves have continued to increase as external pressures have dissipated.

Despite weak economic momentum in key trading partners and the ongoing impact of the war in Ukraine, we expect economic growth to rebound to 2.9% in 2024, from an estimated 2% in 2023. This year's growth will be primarily driven by increased household consumption, ongoing infrastructure projects, and an increase in exports.

Both parliamentary and presidential elections are scheduled for this year. The election season will begin with the presidential election's first round on April 24, and if no candidate achieves a majority, a run-off is planned for May 8, coinciding with the parliamentary elections.

Parliament recently ratified the 2024 budget, implying a reduction in the budget deficit to 3.4% of GDP, from 4.6% in 2023. Approximately 4.8% of GDP in 2024 is allocated for public investment, with a significant portion directed toward the Corridor 8 and 10d highway projects. Nevertheless, we forecast the budget deficit at 3.7% of GDP, due to our more cautious economic growth outlook and the possibility of overspending on public investment.

Outlook

The stable outlook reflects our assessment that although North Macedonia faces challenges such as subdued growth in its trading partners and the lingering effects of the war in Ukraine, these factors are offset by the country's growth potential, moderate government debt, and controlled interest expenses.

Downside scenario

We could lower the ratings if the country's fiscal or external metrics significantly deteriorate, or we see a depletion of its foreign exchange reserves that pressures the de facto peg to the euro. Furthermore, downward pressure on the ratings would rise if budget deficits worsen substantially beyond our medium-term projections. This would be especially pertinent if there were a sharp increase in government debt.

Upside scenario

We could raise the ratings if the country shows strong progress in implementing structural reforms, leading to an enhanced institutional framework. Additionally, positive triggers for an upgrade would include improved fiscal performance with a decreasing trend in net general government debt, as well as strong economic growth.

Rationale

Institutional and economic profile: Elections are at the forefront as economic growth is poised to moderately rise this year

We expect North Macedonia’s economy will expand in real terms by 2.9% in 2024, a notable increase from an estimated 2.0% in 2023. This acceleration in growth will be largely driven by: i) stronger household consumption, supported by real wage growth, in the context of the ongoing disinflation and a tight labor market; ii) significant infrastructure investments, including the Corridor 8 and 10d highway projects worth €1.3 billion; and iii) export growth, spurred by a slight uptick in economic growth in key trading partners, in particular Germany (44% of the country's exports went to Germany in the first 10 months of 2023). Beyond 2024, we foresee a mild improvement in economic growth, potentially reaching 3% annually, as global economic activity strengthens and financial conditions become more favorable.

Although economic growth in 2023 was only moderate, there has been a notable decline in the unemployment rate, which reached 12.8% in the third quarter of the year. This marks a significant decrease from 28.8% recorded a decade ago in the same period. A contributing factor to this reduction is the influx of foreign direct investment (FDI), particularly in the country's economic development zones. We expect the unemployment rate to continue its downward trajectory, supported by a pipeline of FDI particularly from EU countries encouraging a nearshoring agenda. However, the country's labor market faces challenges, such as emigration, a considerable informal sector, and a shortage of skilled labor in the workforce.

North Macedonia is preparing for elections. The election season will commence with the presidential election's first round on April 24. If no candidate achieves a majority in this round, a run-off is planned for May 8, coinciding with the parliamentary elections. According to the constitutional requirements of North Macedonia, a technocratic government must be established 100 days before the elections. Thus, on Jan. 28, ahead of elections, a technocratic government will be formed, headed by Talat Xhaferi, the Speaker of Parliament. Current polls show the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE) in the lead. However, the inherent unpredictability of election outcomes suggests that these standings could shift as elections approach.

Political polarization has been a significant factor in the past, particularly between the former coalition led by Social Democratic Union of Macedonia (SDSM) and the primary opposition party, the VMRO-DPMNE. This polarization has resulted in parliamentary gridlock, leading to delays in legislative approvals and posing challenges to the nation's institutional framework. The upcoming elections may herald a potential shift in the political landscape. Nonetheless, North Macedonia's institutional framework continues to grapple with various shortcomings, particularly within the judiciary and the fight against corruption.

EU accession negotiations for Macedonia began in July 2022, and are contingent on parliament endorsing a France-backed proposal aimed at resolving the Bulgaria veto issue. This proposal calls for North Macedonia to make constitutional changes recognizing a Bulgarian minority, among other steps. The first intergovernmental conference (IGC) between North Macedonia and the EU has taken place, with the second IGC pending constitutional amendments. Achieving these amendments requires a minimum of 80 out of 120 votes, making the outcome dependent on upcoming elections. Bulgaria's stance could still impact North Macedonia's EU membership bid in the future. Nevertheless, North Macedonia's EU membership bid remains a crucial catalyst for long-term structural and institutional development, supporting economic growth and addressing emigration challenges.

Flexibility and performance profile: Budgetary and external imbalances will narrow over 2024-2027

The parliament recently ratified the 2024 budget, planning a reduction in the budget deficit to 3.4% of GDP from 4.6% in 2023. The budget projects 10% tax revenue growth, reaching 31.6% of GDP. This increase is attributed to enhanced economic growth and revisions in tax policy, including a rise in the VAT rate for selected products and adjustments in income tax. Conversely, expenditures are set to climb by 5.3% compared with the previous year, amounting to 35.6% of GDP. This rise in expenditures is mainly due to increased allocations for salaries, pensions, and general social protection. Additionally, public investment outlays are set to constitute approximately 4.8% of GDP in 2024, with a significant portion allocated to infrastructure projects, notably the construction of the Corridor 8 and 10d highway. We currently believe that the budget deficit will likely be somewhat larger this year (3.7% of GDP), on the basis of our more conservative economic growth forecast and the potential need for additional infrastructure-related spending beyond the initial allocation for the Corridor 8 and 10d projects.

In line with previous years, the budget deficit will be financed with a mixture of domestic and foreign borrowing. Sources of external borrowing include loans from the ongoing IMF Precautionary and Liquidity Line (PLL) program and various international financial institutions such as the KfW and the World Bank.

In the near term, we foresee a more gradual budgetary consolidation approach as the government focuses on economic growth, primarily through infrastructure projects. Consequently, we expect the budget deficit to average 3.1% of GDP over 2024-2027. Ongoing challenges include a sizable informal sector and potential cost overruns in infrastructure projects. Nonetheless, we expect that net general government debt will remain stable at about 53% of GDP in the coming years.

Approximately 71% of government debt is in foreign currency, posing potential risks, especially if the de facto peg comes under pressure, although we currently do not expect this to occur. Adhering strictly to the Organic Budget Law, set for implementation in 2025, will be crucial for further budgetary consolidation. This law establishes fiscal rules akin to the eurozone's Maastricht criteria and calls for an independent fiscal council, which should bolster North Macedonia's budget deficit reduction efforts. Despite tight financial conditions, debt servicing costs remains manageable. Over the next four years, we forecast interest payments will average about 5% of government revenue, a figure that is lower than that of many peers at a similar rating level.

We expect the current account deficit to widen to 2.8% of GDP in 2024, from about 1.3% in 2023 due to a pickup in consumer demand. Nevertheless, the increase in imports will be somewhat offset by an increase in exports to North Macedonia’s key trading partners such as Germany. We expect the country’s current account deficit will revert to its pre-pandemic trend of roughly 2% of GDP. The 2024 current account deficit will, in our view, be financed via a combination of channels that include net FDI inflows and external government borrowing, for example via international financial institutions.

Recently, the IMF executive board completed the first review of the PLL program. The program was previously delayed due to the IMF's request for updated cost assessments for the Corridor 8 and 10d project. But as a result of the completion of the first review, the authorities intend to initially draw roughly €140 million-€150 million from the available funds, reserving the option to use the remaining funds in response to potential future fiscal or external challenges. Additionally, the approval of the PLL funds will enable North Macedonia to access the European Commission's €100 million Macro-Financial Assistance (MFA) package.

In December 2023, the central bank's foreign reserves rose by 17.5% compared with the previous year, to €4.5 billion. Looking forward, we expect foreign reserves to remain stable, supported by FDI inflows and government’s external borrowing.

Inflation slowed sharply to 3.6% in December 2023, influenced by base effects, slowing food and energy prices, and tight monetary policy, from 18.7% seen a year earlier. We expect inflation to average 4% in 2024, supported by the aforementioned factors. In addition, recent actions by the National Bank of the Republic of North Macedonia (NBRNM) have included foreign currency interventions for liquidity withdrawal, interest rate hikes, and multiple changes to reserve requirements which support the monetary policy signaling channel. In turn, these actions have collectively contributed to tighter financial conditions in the economy and to a slowdown in inflation.

However, potential inflationary pressures could arise from the tight labor market or, more generally, adverse geopolitical development. The timing of the NBRNM's future actions will depend on inflation developments, conditions in the foreign exchange market, and on the ECB's monetary policy actions given the de facto peg to the euro. We currently expect the ECB will keep policy rates on hold until mid-2024.

The implementation of macroprudential measures by the central bank, such as increased capital buffers and borrower-based measures, has preserved and strengthened the resilience of the banking system. This is evident in the historically low nonperforming loans, at 2.8% of total loans, and a 17-year peak in capital adequacy at 18.2%. Consequently, the risk of the government incurring contingent liabilities from the financial sector in the near term is reasonably low.

North Macedonia--Selected Indicators

	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Economic indicators (%)										
Nominal GDP (bil. MKD)	660.9	692.7	669.3	729.4	803.1	886.4	943.1	999.6	1,059.4	1,122.8
Nominal GDP (bil. $)	12.7	12.6	12.4	14.0	13.7	15.5	16.8	18.5	20.1	21.3
GDP per capita (000s $)	6.1	6.1	6.0	6.8	7.5	8.5	9.1	10.1	11.0	11.6
Real GDP growth	2.9	3.9	(4.7)	4.5	0.9	2.0	2.9	3.1	3.1	3.1
Real GDP per capita growth	2.8	3.8	(4.7)	4.9	13.6	2.0	3.0	3.2	3.2	3.2
Real investment growth	1.7	9.5	(15.1)	2.9	14.0	1.3	5.8	4.0	3.9	4.2
Investment/GDP	32.3	34.3	29.9	32.2	36.0	34.1	34.9	34.9	34.9	35.0
Savings/GDP	32.5	31.3	27.0	29.5	29.7	32.7	32.1	32.4	32.6	33.3
Exports/GDP	60.4	62.4	57.8	65.4	74.0	75.8	75.2	76.5	77.6	78.8
Real exports growth	12.8	8.9	(10.9)	14.3	13.3	2.8	3.8	3.4	3.2	3.3
Unemployment rate	20.7	17.3	16.4	15.7	14.4	13.6	13.0	12.8	12.4	12.0
External indicators (%)										
Current account balance/GDP	0.1	(3.0)	(2.9)	(2.7)	(6.3)	(1.3)	(2.8)	(2.6)	(2.3)	(1.7)
Current account balance/CARs	0.2	(3.7)	(3.9)	(3.1)	(6.6)	(1.4)	(2.9)	(2.6)	(2.4)	(1.8)
CARs/GDP	79.8	80.4	74.3	85.2	95.2	95.3	96.0	96.3	95.7	95.9
Trade balance/GDP	(16.2)	(17.3)	(16.7)	(19.7)	(26.8)	(22.5)	(22.9)	(22.1)	(21.5)	(21.3)
Net FDI/GDP	5.6	3.2	1.4	3.2	5.0	3.6	3.0	3.0	3.0	3.0
Net portfolio equity inflow/GDP	(0.8)	(0.0)	(0.5)	(0.4)	(0.8)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Gross external financing needs/CARs plus usable reserves	109.1	111.7	113.8	112.7	115.4	112.7	109.6	109.0	108.6	107.9
Narrow net external debt/CARs	24.3	23.0	33.4	26.2	26.8	22.3	22.6	22.0	20.7	19.8
Narrow net external debt/CAPs	24.3	22.2	32.1	25.4	25.2	22.0	21.9	21.4	20.2	19.4
Net external liabilities/CARs	68.4	71.3	92.2	68.8	66.6	58.4	57.5	55.5	53.1	50.9
Net external liabilities/CAPs	68.5	68.7	88.8	66.7	62.5	57.6	55.9	54.1	51.9	50.0
Short-term external debt by remaining maturity/CARs	20.2	20.7	24.0	20.5	19.9	21.2	20.9	19.2	18.5	18.3
Usable reserves/CAPs (months)	1.2	1.3	1.4	1.1	1.1	1.0	1.5	1.4	1.3	1.3
Usable reserves (Mil. $)	1,152.5	1,137.3	1,153.1	1,267.0	1,297.2	2,088.8	2,096.8	2,180.6	2,292.5	2,473.2
Fiscal indicators (general government %)										
Balance/GDP	(1.1)	(2.1)	(8.2)	(5.4)	(4.4)	(4.7)	(3.7)	(3.0)	(3.0)	(2.8)
Change in net debt/GDP	1.6	3.5	7.5	5.3	4.3	5.3	4.2	3.4	3.3	3.1
Primary balance/GDP	0.1	(1.0)	(7.0)	(4.1)	(3.3)	(3.3)	(2.1)	(1.4)	(1.4)	(1.2)
Revenue/GDP	30.4	31.4	29.9	32.0	32.1	31.3	30.7	30.5	30.5	30.5
Expenditures/GDP	31.5	33.5	38.1	37.4	36.5	36.0	34.4	33.5	33.5	33.3
Interest/revenues	3.9	3.8	4.0	3.9	3.6	4.5	5.1	5.3	5.3	5.3
Debt/GDP	45.8	46.5	57.0	57.8	55.9	55.9	56.8	56.9	57.0	56.9

North Macedonia--Selected Indicators

Debt/revenues	150.8	148.3	190.5	180.4	174.3	178.6	184.9	186.7	187.0	186.5
Net debt/GDP	39.3	41.0	50.0	51.1	50.7	51.2	52.3	52.8	53.1	53.2
Liquid assets/GDP	6.5	5.5	7.1	6.6	5.2	4.7	4.4	4.2	4.0	3.7
Monetary indicators (%)										
CPI growth	1.5	0.8	1.2	3.2	14.2	9.6	4.0	2.6	2.6	2.6
GDP deflator growth	3.9	0.9	1.4	4.3	9.1	8.2	3.4	2.8	2.8	2.8
Exchange rate, year-end (MKD/$)	53.7	55.0	50.2	54.4	57.7	57.9	55.4	53.6	52.3	52.3
Banks' claims on resident non-gov't sector growth	7.3	6.4	4.8	8.3	9.3	6.0	6.0	6.0	6.0	6.0
Banks' claims on resident non-gov't sector/GDP	49.0	49.7	53.9	53.5	53.1	51.0	50.8	50.8	50.8	50.8
Foreign currency share of claims by banks on residents	40.3	41.2	41.2	40.3	42.2	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	40.0	38.4	39.7	42.8	44.4	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	1.4	(1.7)	1.9	1.1	2.3	N/A	N/A	N/A	N/A	N/A

Sources: National Bank of the Republic of North Macedonia,International Monetary Fund, Eurostat, State Statistical Office of Republic of North Macedonia (Economic Indicators); National Bank of the Republic of North Macedonia,International Monetary Fund (Monetary Indicators); Ministry of Finance, National Bank of the Republic of North Macedonia (Fiscal and Debt Indicators); National Bank of the Republic of North Macedonia (External Indicators).

Adjustments: We adjust usable reserves by subtracting monetary base and required bank reserves on resident foreign-currency deposits from the reported international reserves. Government debt is adjusted by including the debt of Public Enterprise for State Roads.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. MKD--Macedonian denar. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

North Macedonia--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	5	Future policy responses are difficult to predict because of a still-polarized political landscape, as reflected in the tensions between the governing SDSM and opposition VMRO parties. Transparency is impaired owing to high levels of perceived corruption.
Economic assessment	4	Based on GDP per capita (US$) and growth trends as per Selected Indicators in table 1.
External assessment	4	Based on narrow net external debt and gross external financing needs/(current account receipts (CAR) plus usable reserves) as per Selected Indicators in table 1.
		There is a risk of marked deterioration in cost of financing given elevated rates and sizable upcoming Eurobond redemptions in the next few years.
Fiscal assessment: flexibility and performance	4	Based on the change in net general government debt (% of GDP) as per Selected Indicators in table 1.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in table 1.
		Over 70% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The North Macedonian denar is pegged to the euro. Furthermore, the National Bank of the Republic of North Macedonia benefits from a degree of operational independence; it uses market-based monetary instruments and has some ability to act as a lender of last resort for the financial system. Annual consumer price index is generally low and in line with that of its peers.
Indicative rating	bb-	As per Table 1 of “Sovereign Rating Methodology
Notches of supplemental adjustments and flexibility	0	None.

North Macedonia--Rating Component Scores

Key rating factors	Score	Explanation
Final rating		
Foreign currency	BB-	Default risks do not apply differently to foreign-and local-currency debt.
Notches of uplift	0	
Local currency	BB-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Jan. 17, 2024
- Sovereign Ratings History, Jan. 17, 2024
- Sovereign Ratings Score Snapshot, Jan. 3, 2024
- 2024 Global Sovereign Rating Trends: Mixed Feelings, Dec. 13, 2023
- Sovereign Risk Indicators, Dec. 11, 2023. A free interactive version is available at http://www.spratings.com/sri
- 2022 Annual Global Sovereign Default And Rating Transition Study, April 28, 2023

Ratings Detail (as of January 26, 2024)*

North Macedonia

Ratings Detail (as of January 26, 2024)*

Sovereign Credit Rating		BB-/Stable/B
Transfer & Convertibility Assessment		BB
Senior Unsecured		BB-
Sovereign Credit Ratings History		
24-May-2013	*Foreign Currency*	BB-/Stable/B
21-Sep-2009		BB/Stable/B
30-Apr-2009		BB/Negative/B
24-May-2013	*Local Currency*	BB-/Stable/B
24-Aug-2011		BB/Stable/B
21-Sep-2009		BB+/Stable/B

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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