S&P Global Ratings

RatingsDirect®

Research Update:

North Macedonia 'BB-/B' Ratings Affirmed; Outlook Stable

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Overview

- North Macedonia continues to record one of the lowest real GDP growth rates in the Western Balkans, with approximate 2.6% growth in the first three quarters of 2024, underscoring ongoing structural challenges.
- Persistent budget deficits, increasing public sector arrears, and the likelihood of additional spending to support economic growth heighten fiscal risks.
- Despite the risk of fiscal slippages and higher debt levels, we consider North Macedonia as having low external debt and a manageable interest burden.
- We have therefore affirmed our 'BB-/B' sovereign credit ratings on North Macedonia. The outlook is stable.

Rating Action

On Jan. 24, 2025, S&P Global Ratings affirmed its 'BB-/B' long- and short-term foreign and local currency sovereign credit ratings on North Macedonia. The outlook is stable.

Outlook

The stable outlook reflects our view that, despite North Macedonia facing economic challenges, such as weak growth among its trading partners, these are balanced by the country's moderate government debt levels and controlled interest expenses.

Downside scenario

We may consider lowering the ratings if North Macedonia experiences a significant deterioration in its fiscal or external metrics, or if its foreign currency reserves are depleted, placing strain on the Macedonian denar's de facto euro peg. Further downward pressure on the ratings could arise if budget deficits substantially exceed our medium-term projections, especially if accompanied by a sharp rise in government debt.

Upside scenario

We may consider raising the ratings if North Macedonia makes substantial progress in implementing structural reforms, leading to a stronger institutional framework. An upgrade could also be supported by improved fiscal performance, marked by a sustained decline in net general government debt, and robust economic growth.

Rationale

Our ratings on North Macedonia are constrained by its institutional framework, relatively wide and persistent budget deficits, elevated levels of government foreign currency debt, and limited monetary flexibility stemming from the denar's (MKD) de facto peg to the euro. However, these constraints are offset by the country's moderate net external debt levels, manageable fiscal interest burden as a proportion of revenues, strong net inflows of foreign direct investment (FDI), and stable banking sector.

Institutional and economic profile: A sluggish growth outlook that lags regional peers and a stalled EU accession bid.

- North Macedonia's economy remains one of the slowest-growing in the Western Balkans, registering a growth rate of 2.6% in the first three quarters year-over-year.
- Boosting real GDP growth has become a central target for the government, overshadowing fiscal consolidation, which has been deprioritized despite rising debt levels.
- We expect the country's EU accession bid to remain stalled for the foreseeable future.

Economic momentum in North Macedonia remains subdued, highlighting persistent structural challenges. Among the five Western Balkan countries seeking EU membership, North Macedonia continues to post one of the lowest growth rates in the region, recording 2.6% in the first three quarters of 2024. This weak performance reflects a combination of sluggish external demand, particularly from Germany, and limited investment activity, both of which have constrained growth in recent years. For 2025, we expect growth to improve modestly to 2.9%, underpinned by consumption and increased public and private investment, particularly in infrastructure. However, downside risks remain significant, including uncertainty about the EU's economic trajectory and the potential for underperformance in executing public investment plans. By 2027, we anticipate growth to stabilize just below 3%, supported by a gradual recovery in external demand and an uptick in investment activity.

Parliamentary elections in May 2024 resulted in a significant political shift in North Macedonia, with Hristijan Mickoski's Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE) party emerging as the dominant force. Mickoski was appointed Prime Minister, leading a nationalist-oriented government. The VMRO-DPMNE formed a coalition with the Albanian alliance VLEN/VREDI and ZNAM, a splinter group from the Social Democrats (SDSM), securing a comfortable majority of 77 seats in the 120-member parliament. This political change underscores mounting voter dissatisfaction with the previous administration's slow progress on EU integration, rising inflation, and persistent corruption.

On the policymaking front, the administration is prioritizing comprehensive reforms to strengthen state institutions, combat corruption, and reinforce the rule of law. Stimulating economic growth is a central objective, with the government targeting up to 5% growth through large-scale infrastructure projects. Plans also include efforts to boost investment, improve tax collection, and enhance pensions and wages to support citizens. However, in our view, quicker fiscal consolidation does not appear to be a priority, despite increasing debt levels.

The new government has reaffirmed its commitment to EU integration but faces significant challenges in navigating the contentious French proposal, which underpins North Macedonia's accession framework. The proposal requires the government to amend the constitution to recognize a Bulgarian minority--a concession agreed upon by the previous government--and has become a focal point of debate. The government argues that such changes undermine national identity and sovereignty, proposing instead to delay their implementation until full EU membership is secured or to remove them from the accession criteria altogether. This position has encountered strong resistance from both the EU and Bulgaria, which view the recognition of the Bulgarian minority as a non-negotiable prerequisite for advancing accession talks. As a result, North Macedonia's EU accession bid is likely to remain stalled in the near term.

Flexibility and performance profile: Rising fiscal risks limit the country's capacity to handle future external shocks

- The 2025 budget targets a 4% of GDP deficit, down from 4.5% in 2024, but is likely to underperform, in our view.
- Arrears tied to state-owned enterprises (SOEs) and other sectors remain at 4%–5% of GDP, with no clear resolution plan in the budget.
- Reserves rose 10.6% year-on-year to €5 billion in December 2024, driven by foreign exchange purchases.

Parliament recently approved the 2025 budget, projecting a 4% GDP deficit, a slight improvement from the 4.5% target in 2024. Revenues are expected to increase by 13% year-on-year, reaching 35.7% of GDP, driven by higher tax collection, economic growth, and social security contributions. Expenditures are forecast to grow by 10.3% year-on-year, totaling 40.0% of GDP, primarily due to higher public sector salaries, social transfers, health care costs, and infrastructure investments. Notably, capital expenditures are allocated MKD47.2 billion (4.2% of GDP), with significant funding directed toward major infrastructure projects, including Corridors 8 and 10d.

In our view, there are risks to the fiscal outlook. We anticipate a slightly higher deficit of 4.3% of GDP this year, reflecting our expectations of lower GDP growth, potential cost overruns in infrastructure projects, and lower tax collection. Additionally, the government could resort to additional fiscal stimulus if economic growth significantly underperforms expectations. The 2025 budget will likely be financed through a mix of domestic and foreign borrowing. The authorities have secured a €1 billion bilateral loan from Hungary at a favorable interest rate of 3.25%, half of which will be used to refinance the €500 million Eurobond maturing in January. The remaining €500 million will be allocated to the private sector and municipalities, primarily through credit lines and targeted capital investments.

In our baseline we anticipate the government fiscal deficit to average 3.7% of GDP from 2025 to 2028, with net general government debt projected to rise by 61% of GDP in 2028 from 55% of GDP last year. The sluggish pace of fiscal consolidation since the pandemic has contributed to this upward trajectory, reversing pre-pandemic trends of moderate deficits (2%–3% of GDP) and stable debt levels. In light of this fiscal outlook, the country is unlikely to comply with its own

Organic Budget Law--fiscal rules modeled on the Eurozone's Maastricht criteria--for the foreseeable future, underscoring challenges in aligning fiscal policy with EU sustainability targets.

Fiscal risks are further amplified by the potential for increased government spending, particularly if economic growth remains weak. This could place additional strain on fiscal resources, reducing available buffers to mitigate future external shocks. Additional challenges include a sizable informal economy that undermines the tax base and the risk of cost overruns in large infrastructure projects. Adding to these pressures is the growing stock of payment arrears, estimated at 4%–5% of GDP in 2024, which is tied to local utility companies, the health sector, and SOEs. Despite the government's stated commitment to reducing the stock of arrears, the 2025 budget provides limited detail on the specific measures or timeline for their resolution. Given slow progress and low visibility on ways of addressing outstanding public sector arrears, we think the government will ultimately step in to repay them. Therefore, we have incorporated approximately 2% of GDP--attributable to private sector arrears--into our estimate of the government's debt stock.

Approximately 66% of government debt is in foreign currency, posing potential risks, especially if the pegged exchange rate regime comes under pressure. Despite tight financial conditions, debt servicing costs remain manageable. Over the next four years, this cost is expected to average about 5% of government revenue, a figure that is comparatively lower than many of North Macedonia's emerging market peers.

Given the relatively high proportion of foreign currency financing, North Macedonia is exposed to potential risks, particularly if pressures on the pegged exchange rate regime materialize--although this is not our base case. While tighter global financial conditions persist, debt servicing costs remain contained and will average approximately 5% of government revenue over the next four years. These moderate financing costs compare favorably to many of North Macedonia's emerging market peers.

We expect the current deficit to widen to 1.9% of GDP, from a moderate deficit of about 0.6% due to a pickup in domestic demand and weak exports. We expect the current account deficit to average roughly 2%, and these deficits will most likely be financed via a combination of channels that include net FDI inflows and external government borrowing.

In December 2024, the central bank's foreign reserves rose by 10.6% year-over-year to €5 billion. This increase was driven by net foreign exchange purchases and a €500 million bilateral loan from Hungary, with half allocated to low-interest private sector loans and the remainder designated for municipal capital investments. We anticipate foreign reserves to remain stable, underpinned by steady FDI inflows.

Inflation reached 3.5% year-on-year--its highest level since May 2024, but down from roughly 20% in year-end 2022--driven mainly by base effects. Inflation is expected to remain elevated, averaging 3.5%, supported by rising food prices and base effects. Still, the trajectory of inflation, coupled with the spread between North Macedonia's policy rate and the European Central Bank rate--reflecting the Macedonian denar's de-facto peg to the euro--provides the National Bank of the Republic of Macedonia (NBRNM) with some scope for multiple policy rate cuts. However, in our view, the NBRNM will remain cautious, balancing potential rate adjustments against recent inflationary pressures and fiscal stimulus, which could complicate its efforts to anchor inflation expectations.

Despite facing multiple challenges over the past few years, the banking sector in North Macedonia remains stable and profitable. In November 2024, nonperforming loans were low at 2.9% of total loans, and the capital adequacy ratio stood at a stable 19% in the third quarter of 2024, remaining at a historical high. Moreover, to help bolster financial stability, the NBRNM has increased the counter cyclical buffer once again and increased foreign currency reserve requirements. Therefore, the near-term likelihood of contingent liabilities for the government arising from the financial sector remains low.

Table 1

North Macedonia--Selected indicators

Mil.MKD	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Economic indicators (%)										
Nominal GDP (bil. LC)	693	669	729	816	898	958	1,006	1,060	1,118	1,181
Nominal GDP (bil. $)	13	12	14	14	16	17	18	20	21	22
GDP per capita (000s $)	6.1	6.0	6.8	7.6	8.6	9.2	9.8	10.7	11.5	12.1
Real GDP growth	3.9	(4.7)	4.5	2.8	2.1	2.6	2.7	2.9	3.0	3.1
Real GDP per capita growth	3.8	(4.6)	4.9	15.7	2.5	2.7	2.8	3.0	3.1	3.2
Real investment growth	9.5	(15.1)	2.9	11.9	(9.6)	2.0	8.0	5.0	4.3	4.3
Investment/GDP	47.4	38.2	40.9	47.9	34.5	29.7	31.2	31.7	32.2	32.7
Savings/GDP	44.4	35.3	38.2	41.7	34.8	29.1	29.3	29.7	30.1	30.6
Exports/GDP	62.4	57.8	65.4	72.8	67.8	64.5	64.0	64.6	65.4	66.2
Real exports growth	8.9	(10.9)	14.3	10.6	(0.6)	(1.5)	1.2	3.1	3.3	3.3
Unemployment rate	17.3	16.4	15.7	14.4	13.1	12.2	11.9	11.6	11.3	11.0
External indicators (%)										
Current account balance/GDP	(3.0)	(2.9)	(2.7)	(6.2)	0.4	(0.6)	(1.9)	(2.0)	(2.1)	(2.0)
Current account balance/CARs	(3.7)	(3.9)	(3.1)	(6.7)	0.4	(0.7)	(2.3)	(2.4)	(2.5)	(2.4)
CARs/GDP	80.4	74.3	85.2	93.6	88.8	83.0	83.0	83.3	83.9	84.5
Trade balance/GDP	(17.3)	(16.7)	(19.6)	(26.3)	(18.1)	(19.5)	(21.5)	(21.8)	(22.0)	(22.2)
Net FDI/GDP	3.2	1.4	3.2	4.9	3.3	5.7	3.5	3.5	3.5	3.5
Net portfolio equity inflow/GDP	(0.0)	(0.5)	(0.4)	(0.7)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Gross external financing needs/CARs plus usable reserves	111.7	113.8	112.7	115.4	111.7	112.5	107.1	108.5	109.1	109.2
Narrow net external debt/CARs	23.0	33.4	26.2	26.9	23.7	19.5	18.7	17.7	17.3	16.8
Narrow net external debt/CAPs	22.2	32.1	25.4	25.2	23.8	19.4	18.3	17.3	16.8	16.4
Net external liabilities/CARs	71.3	92.2	68.8	66.5	65.6	68.6	68.2	66.3	66.3	66.4
Net external liabilities/CAPs	68.7	88.7	66.7	62.3	65.8	68.1	66.6	64.7	64.7	64.9
Short-term external debt by remaining maturity/CARs	20.6	24.0	20.5	19.9	22.4	23.6	22.9	21.5	20.7	20.2
Usable reserves/CAPs (months)	1.3	1.4	1.1	1.1	1.1	1.3	2.0	1.7	1.5	1.4
Usable reserves (mil. $)	1,137	1,153	1,267	1,297	1,473	2,526	2,291	2,265	2,303	2,388

Table 1

North Macedonia--Selected indicators (cont.)

Mil.MKD	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Fiscal indicators (general government; %)										
Balance/GDP	(2.1)	(8.2)	(5.4)	(4.3)	(4.3)	(4.4)	(4.3)	(3.9)	(3.5)	(3.2)
Change in net debt/GDP	3.5	7.5	5.3	4.6	4.6	6.5	7.6	4.2	3.8	3.5
Primary balance/GDP	(1.0)	(7.0)	(4.1)	(3.2)	(2.9)	(2.6)	(2.4)	(2.1)	(1.8)	(1.6)
Revenue/GDP	31.4	29.9	32.0	31.6	32.7	31.9	32.0	32.0	32.0	32.0
Expenditures/GDP	33.5	38.1	37.4	35.9	37.0	36.3	36.3	35.9	35.5	35.2
Interest/revenues	3.7	4.0	3.9	3.6	4.5	5.6	5.8	5.6	5.3	5.1
Debt/GDP	46.5	57.0	57.7	55.4	55.0	61.3	62.9	63.9	64.4	64.5
Debt/revenues	148.3	190.5	180.4	175.5	168.6	192.4	196.7	199.8	201.2	201.5
Net debt/GDP	41.0	49.9	51.1	50.3	50.3	53.6	58.6	59.9	60.5	60.8
Liquid assets/GDP	5.5	7.1	6.6	5.1	4.7	7.7	4.3	4.1	3.9	3.7
Monetary indicators (%)										
CPI growth	0.8	1.2	3.2	14.2	9.4	3.5	3.0	2.0	2.2	2.2
GDP deflator growth	0.9	1.4	4.3	8.9	7.8	4.0	2.3	2.4	2.4	2.4
Exchange rate, year-end (LC/$)	55.0	50.2	54.4	57.7	55.7	59.2	54.8	53.5	53.5	53.5
Banks' claims on resident non-gov't sector growth	6.4	4.8	8.3	9.3	5.2	5.8	6.5	7.0	7.0	7.0
Banks' claims on resident non-gov't sector/GDP	49.7	53.9	53.5	52.3	50.0	49.6	50.3	51.0	51.8	52.5
Foreign currency share of claims by banks on residents	41.2	41.2	40.3	42.2	41.6	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	38.4	39.7	42.8	44.4	42.9	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(1.7)	1.9	1.1	2.3	4.9	N/A	N/A	N/A	N/A	N/A

MKD--Macedonian denar. 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. LC--Local currency. 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.

Rating Score Snapshot

Table 2

North Macedonia--Rating score snapshot

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 sizeable 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	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in table 1.
		75% 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.
Final rating		
Foreign currency	BB-	
Notches of uplift	0	Default risks do not apply differently to foreign-and local-currency debt.
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. 13, 2025
- Sovereign Ratings History, Jan. 13, 2025
- Sovereign Ratings Score Snapshot, Jan. 7, 2025
- Global Sovereign Rating Trends 2025: Geopolitical Risk Is The Biggest Threat To Credit Quality, Dec. 18, 2024
- Sovereign Risk Indicators, Dec. 9, 2024. A free interactive version is available at http://www.spratings.com/sri
- 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
North Macedonia	
Sovereign Credit Rating	BB-/Stable/B
Transfer & Convertibility Assessment	BB
Senior Unsecured	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at