FitchRatings

Republic of North Macedonia

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

Key Rating Drivers

Rating Fundamentals: North Macedonia's rating is supported by a record of credible and consistent macroeconomic policies that underpin the longstanding exchange-rate peg to the euro, more favourable governance indicators than peer medians, and an EU accession process that acts as a reform anchor in the medium term. Set against these factors are the greater exposure of public debt to exchange-rate risk, banking sector euroisation, and still-high structural unemployment and with weak productivity growth.

Investment, Consumption to Drive Growth: Fitch Ratings expects growth to strengthen in 2024 to 2.9% from a provisional 1% in 2023, with private consumption likely to remain the main contributor, owing to an improvement in real wages. Work on the 8/10d highway project will drive investment spending, and continued net FDI inflows will lift export capacity. We forecast growth to rise further in 2025 to 3.6% as the prospects for key trading partners improves.

Budget Deficit to Narrow: Fitch expects a narrowing of the general government deficit to 3.8% of GDP in 2024 from 4.9% in 2023, owing to budgeted spending adjustments, recent revenue-raising measures and a pickup in economic activity. Energy measures (estimated to save 0.5% of GDP) and adjustments to agricultural subsidies will be backed up by full-year revenues from the removal of tax exemptions and VAT hikes introduced in September 2023. Stronger growth and a further reduction of energy subsidies will narrow the deficit to a forecast 3.4% in 2025.

Rise in Debt Partly Pre-financing: We forecast general government debt to jump in 2024 to 55.2% of GDP from 53.1% in 2023, owing to the pre-financing of a January 2025 Eurobond maturity, before falling to 54.3% at end-2025. Government debt is significantly exposed to FX risk, as at end-2023 only 29% was local-currency-denominated and a further 66% of was euro-denominated. However, these risks are mitigated by the credible exchange-rate peg.

FDI to Cover Current Account Deficit: Fitch expects the current account to return to a deficit in 2024 of 2.8% of GDP, after a largely energy-related fall in imports caused a rare surplus of 0.7% of GDP in 2023. The deficit this year will be driven by imports of goods and services associated with the 8/10d project. Stronger growth in key trading partners should narrow the deficit to 2.2% in 2025. Net FDI inflows of 3.5%-4% of GDP will support further reserve accumulation and underpin the exchange-rate peg.

Impending Elections: Opinion polls point to a change in government at legislative elections in May, with VMRO, the largest opposition party, currently ahead, but without sufficient support for an overall majority. A coalition with one of the ethnic Albanian parties appears likely. Political parties have yet to announce their electoral platforms, but there are no indications of significant differences on economic policy. There could be a delay, rather than a derailment, of the EU accession process.

Inflation Normalising: Inflation dropped to 3% in February, from a peak of 19.8% in October 2022, reflecting base effects, tighter monetary policy and more recently a temporary freeze on some prices that has now lapsed (and will feed into the numbers in March). Core inflation has also fallen and inflation expectations eased. Rapid growth in wages, up 16.5% in January, is a upside risk to inflation, but profit margins have been built in recent years, providing a buffer. Fitch forecasts inflation to average 3.7% in 2024 and 2.8% in 2025 (from 9.4% in 2023).

Sound Banks: Banks continues to perform well. Sectoral profits jumped by 48% in 2023 due to higher net interest income and improved operational efficiency. Return on assets was 2% and return on equity 16.1%. Capital adequacy was at a 17-year high of 18.1%, non-performing loans finished the year at a long-term low of 2.8% (with coverage 150%), liquidity is high (with a liquidity coverage ratio of 264%) and solvency above pre-Covid-19 pandemic levels.

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

	2023E
GDP (USDbn)	15
Population (m)	2.1

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2023)
Country Ceiling Criteria (July 2023)

Related Research

Fitch Affirms North Macedonia at 'BB+'; Outlook Stable (April 2024)
Global Economic Outlook (March 2024)
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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Sovereigns
North Macedonia

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Rating Summary

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

Sovereign Rating Model: BB
Contribution of variables, relative to BB median

■ Structural ■ Macro ■ Public finances ■ External finances
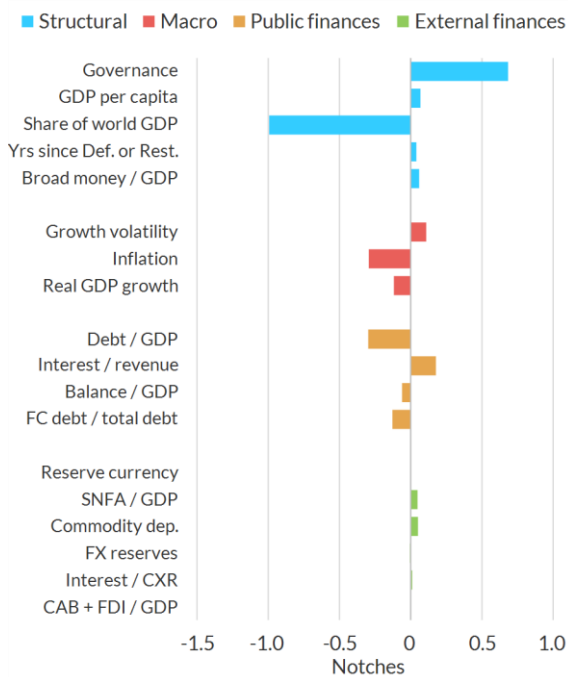
Qualitative Overlay: +1
Adjustments relative to SRM data and output

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 and the jump in inflation reflects a very substantial and unprecedented exogenous shocks that have hit the vast majority of sovereigns, Fitch currently believes that North Macedonia has the capacity to absorb them without lasting effects on its long-term macroeconomic stability.

Public finances: No adjustment.

External finances: No adjustment.

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

Sovereign Rating Model Trend
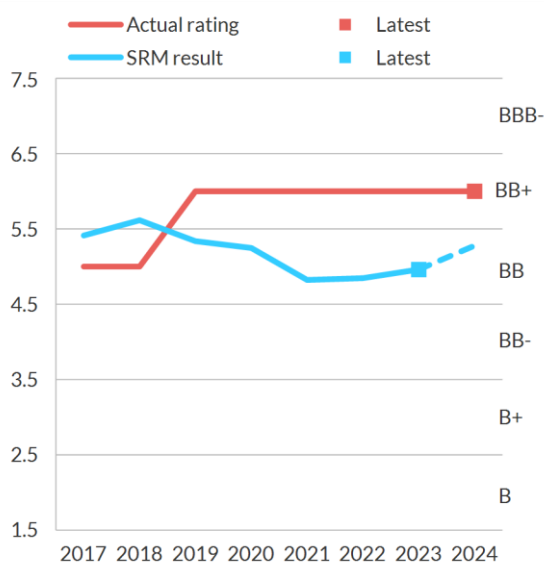
Recent Rating Derivation History

Review Date	LT FC IDR	SRM Result[ab]	QO			
			S	M	PF	EF
Latest	BB+	BB	0	+1	0	0
6 Oct 23	BB+	BB	0	+1	0	0
14 Apr 23	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

[a] The latest rating uses the SRM result for 2023 from the chart. This will roll forward to 2024 in July 2024.
[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
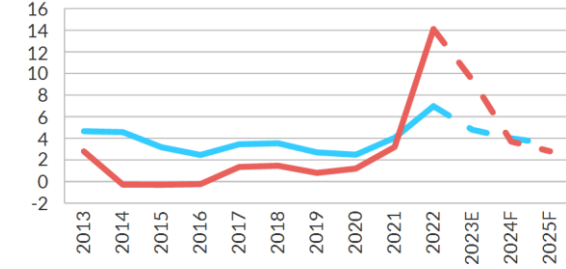Source: Fitch Ratings

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Peer Analysis

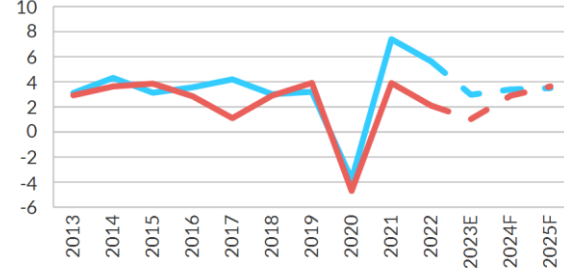— — — North Macedonia   — — — BB Median

Consumer Price Inflation
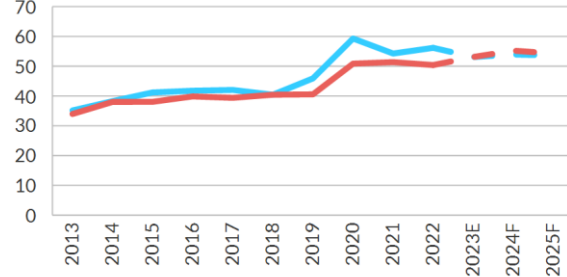(annual avg, %)

Real GDP Growth
(%)

General Government Balance
(% GDP)

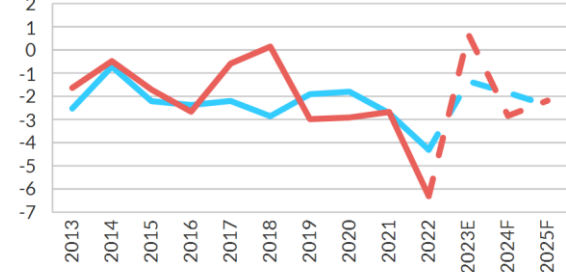### Gross General Government Debt
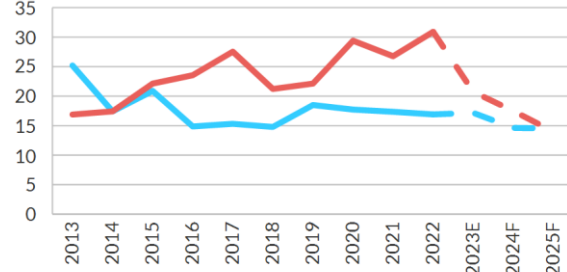(% GDP)

Current Account Balance
(% GDP)

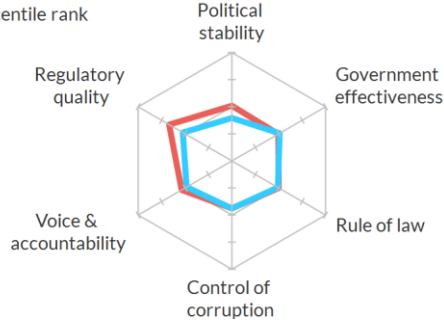### Net External Debt
(% GDP)

Real Private-Sector Credit Growth
(%)

Governance Indicators
Percentile rank

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

Peer Analysis

2023E[a]	North Macedonia	BB median	BBB median	B median
Structural features				
GDP per capita (USD) [SRM]	7,078	7,019	15,822	3,691
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	52.5	43.7	58.2	36.7
Human development index (percentile, latest)	56.7	52.5	67.6	36.5
Broad money (% GDP) [SRM]	70.8	48.6	60.8	37.1
Private credit (% GDP, 3-year average)	53.2	40.7	56.2	23.9
Dollarisation ratio (% bank deposits, latest)	46.0	36.4	16.1	31.5
Bank system capital ratio (% assets, latest)	18.1	16.5	15.8	16.9
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	2.0	3.8	3.2	4.1
Real GDP growth volatility (complex standard deviation) [SRM]	2.6	3.1	3.5	3.6
Consumer price inflation (%, 3-year average) [SRM]	9.1	4.7	3.2	5.6
Unemployment rate (%)	13.0	9.1	7.7	7.8
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-4.4	-3.0	-2.6	-3.8
Primary balance (% GDP, 3-year average)	-2.8	-1.1	-0.6	-1.4
Interest payments (% revenue, 3-year average) [SRM]	4.4	8.5	7.5	9.4
Gross debt (% revenue, 3-year average)	153.9	160.9	153.4	229.7
Gross debt (% GDP, 3-year average) [SRM]	52.9	39.8	37.3	53.0
Net debt (% GDP, 3-year average)	48.0	34.5	31.5	46.6
FC debt (% gross debt, 3-year average) [SRM]	77.6	59.8	34.1	61.5
External finances[c]				
Current account balance (% GDP, 3-year average)	-2.8	-2.7	-1.7	-3.8
Current account balance + net FDI (% GDP, 3-year average) [SRM]	1.3	0.7	0.6	-1.4
Commodity dependence (% CXR) [SRM]	9.1	21.3	18.8	32.3
Gross external debt (% GDP, 3-year average)	81.6	47.8	55.0	51.6
Net external debt (% GDP, 3-year average)	23.0	11.7	11.9	19.8
Gross sovereign external debt (% GXD, 3-year average)	39.2	44.0	29.6	59.2
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	2.3	-2.2	2.0	-16.2
External interest service (% CXR, 3-year average) [SRM]	2.3	3.9	4.1	3.8
Foreign-exchange reserves (months of CXP) [SRM]	4.3	4.5	4.9	4.0
Liquidity ratio	126.1	140.7	134.4	152.9

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

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

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, with 71% of government debt denominated in foreign currency.

- Euroisation is also present in the banking sector, accounting for 50.2% of deposits at end-2023.

- Net external debt/GDP and a highly negative international investment position are higher than the 'BB' median.

- Unemployment is structurally high, at 13% at end-2023, reflecting a large informal economy and skills shortages.

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

Source: Fitch Ratings

Rating Sensitivities

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

- Public Finances: Higher-than-forecast and rising general government debt/GDP over the medium term, for example, due to weaker growth prospects or looser fiscal policy.

- Structural: Adverse political developments that negatively affect governance standards, the economy and EU accession progress.

- External Finances: Pressure on foreign-currency reserves and/or the currency peg against the euro, caused by a deterioration in the external position.

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

- Structural/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 implementation of fiscal reforms

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Forecast Summary

	2020	2021	2022	2023E	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-4.7	4.5	2.2	1.0	2.9	3.6
Unemployment (%)	16.6	15.8	14.4	13.0	12.8	12.6
Consumer price inflation (annual average % change)	1.2	3.2	14.2	9.4	3.7	2.8
Policy interest rate (annual average, %)	1.7	1.3	2.3	5.9	5.2	4.1
General government balance (% GDP)	-8.2	-5.4	-4.4	-4.9	-3.8	-3.4
Gross general government debt (% GDP)	50.8	51.4	50.4	53.1	55.2	54.3
MKD per USD (annual average)	54.1	52.1	58.6	56.9	56.9	57.0
Real private credit growth (%)	3.6	4.7	-4.2	-3.7	3.7	4.1
External finance						
Merchandise trade balance (USDbn)	-2.1	-2.8	-3.7	-2.8	-3.2	-3.2
Current account balance (% GDP)	-2.9	-2.7	-6.3	0.7	-2.8	-2.2
Gross external debt (% GDP)	84.8	77.5	84.4	80.4	80.0	77.0
Net external debt (% GDP)	29.4	26.8	30.9	20.7	17.5	14.0
External debt service (principal + interest, USDbn)	1.2	1.6	1.0	1.7	1.6	2.1
Official international reserves including gold (USDbn)	4.1	4.1	4.1	5.0	5.4	5.5
Gross external financing requirement (% int. reserves)	37.2	41.8	39.4	30.6	32.7	37.5
Real GDP growth (%)						
US	-2.2	5.8	1.9	2.5	2.1	1.5
China	2.2	8.4	3.0	5.2	4.5	4.5
Eurozone	-6.4	5.4	3.5	0.4	0.6	1.6
World	-2.8	6.3	2.7	2.9	2.4	2.5
Oil (USD/barrel)	43.3	70.6	98.6	82.1	80.0	70.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(MKDbn)	2023	2024
Uses	**45.7**	**52.6**
Budget deficit	41.3	33.9
MLT amortisation	4.4	18.7
Domestic	4.4	18.7
External	0.0	0.0
Sources	**45.7**	**52.6**
Gross borrowing	54.9	60.7
Domestic	34.4	34.7
External	20.5	26.1
Privatisation	0.0	0.0
Other	-11.3	6.5
Change in deposits (- = increase)	2.1	-14.6

Source: Fitch Ratings

External Finances

(USDbn)	2023	2024
Uses	**1.3**	**1.6**
Current account deficit	-0.1	0.4
MLT amortisation	1.4	1.2
Sovereign	0.6	0.5
Non-sovereign	0.7	0.7
Sources	**1.3**	**1.6**
Gross MLT borrowing	1.8	2.1
Sovereign	0.8	1.1
Non-sovereign	1.0	1.0
FDI	0.6	0.5
Other	-0.3	-0.6
Change in FX reserves (- = increase)	-0.6	-0.4

Source: Fitch Ratings

Credit Developments

### Growth to Revive After Preliminary Data Show Surprisingly Weak 2023

Preliminary official economic growth data have come in lower than predicted, with an unexpectedly weak 4Q23 meaning full-year real growth was just 1% in 2023. This is lower than half of the expectations of the central bank, ministry of finance and IMF, and compares to Fitch's projection of 2.4% from its October review. The impact of weakness in key trading partners (notably Germany), a slower-than-expected start to the 8/10d highway project (due to delays in land acquisition) and poor agricultural performance point to some loss of momentum. However, it appears that inventories had the major impact.

Inventories are not disaggregated in the preliminary data, in which they are captured (together with statistical discrepancies) in gross fixed capital formation. This declined 20.5% year on year (yoy) in 4Q23, after falling by 15.3% in 1Q23-3Q23 yoy, a drop that the authorities had assumed reflected the clearing of inventories accumulated during the 1H22. A rise in government capital spending (up 48%) and strong net FDI inflows also raise questions over the gross fixed capital formation (GFCF) number, although inventory drawdown would be consistent with the fall in real imports. In additional a large negative GFCF deflator resulted in a 30.7% fall in nominal terms in the full year (cutting investment/GDP to 23.9% from an average of 33% over the previous five years). Fitch uses the official projections, but recognises that there is potential for these to be exceeded in subsequent planned revisions to real and nominal outturns for 2023.

The small number of high-frequency data available for 2024 suggest activity has had a relatively subdued start to the year (industrial production rose 1.6% yoy in the first two months and retail sales were up 1.1%). Nonetheless, Fitch expects growth to strengthen in 2024. Private consumption should remain the main contributor to growth owing to an improvement in real wages. Work on 8/10d will drive investment spending and continued net FDI inflows will lift export capacity. Growth should rise further in 2025 as the prospects for key trading partners improve, although this appears to be the main near-term downside risk. Flows from the EU's new Western Balkans growth plan (potentially worth 6% of GDP by end-2027) are an upside to the forecast.
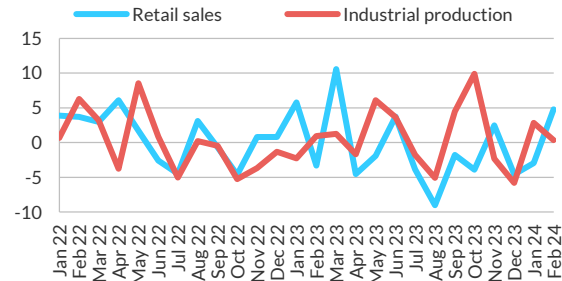
Real GDP Growth
(% yoy)
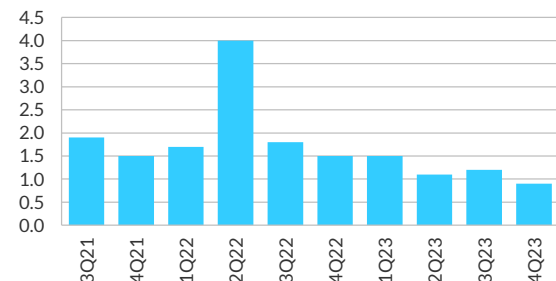
Source: Fitch Ratings, State Statistical Office

High Frequency Indicators
(% yoy)

Source: Fitch Ratings, State Statistical Office

Potential Change in Government at Upcoming Elections; Little Policy Impact Expected

Opinion polls point to a change in government at upcoming elections. Parliamentary elections are scheduled for 8 May, the same date as a second round of the presidential election (if required). The formal campaign period begins 20 days ahead of the presidential election, scheduled for 24 April. A technical government was appointed on 28 January (100 days before the election) and has constitutional limits on its activities, including no unbudgeted adjustments to fiscal policy.

VMRO, the largest opposition party, is leading in opinion polls, but without the support sufficient for an overall majority. A coalition with one of the ethnic Albanian parties appears likely. The ethnic Albanian vote has split into two groupings after a fracturing of support for DUI, which has been in the past five coalition governments, partnering with both VMRO and the current coalition leader, SDSM. Both main parties have said they will not work with anti-NATO far left party Levica. Agreement on a post-election coalition may take a few months.

Political parties have yet to announce their electoral platforms, but there are no indications of significant differences on economic policy. VMRO has expressed some reservations over the wording of the constitutional amendment necessary as part of North Macedonia's EU accession process, but both ethnic Albanian groupings are strongly committee to EU accession (as is the SDSM) and a delay rather than a derailment of the process appears most likely. The previous term of VMRO government (ending 2017) was tainted with corruption, but the party has since overhauled its leadership.

Public Finances In Line With Targets

The general government deficit in 2023 was smaller than the official target in nominal terms, but based on preliminary nominal GDP it was 4.9% of GDP against a target of 4.6%. With both expenditure and revenue jumping relative to GDP in 2023 and over 4pp higher than the average for the previous 10 years, we view this as another indication that the GDP figure will be revised.

General government revenues rose by 13.8%, driven by tax revenue. State budget data show a 14.2% increase in personal income tax (PIT) reflecting strong nominal wage growth, which also boosted social contributions. This compensated for the sluggish growth in VAT revenue (8.1%), which was affected by base effects. Revenue from the one-off solidarity tax (on private-sector companies deemed to have made windfall profits), imposed at the September budget revision, were in line with target. General government spending rose by 14%, on a 48% jump in capital spending. This was driven by a large transfer for the state road agency for the 8/10d project. Current spending growth was contained to 9.7%.

The 2024 budget aims to cut the deficit to 3.4% of GDP, an adjustment of 0.8pp from the deficit projected at the time the budget was drawn up. The largest component of this adjustment stems from energy measures (estimated to save 0.5% of GDP) that will cut the transfer to state energy generator ESM. Specifically, the proportion of electricity sold to the regulated market will be cut in stages (from 100% to 85% in June) and prices charged will be raised. Adjustments to agricultural subsidies and the pre-financing of 2024 8/10d expenses with savings from under-executed spending in 2023 account for the remainder.

These measures should be backed up by full-year revenues from the removal of PIT and corporation tax (CIT) exemptions and VAT hikes introduced in September 2023. To avoid additional pre-election spending on wages and social payments (on top of those implemented in September), the IMF added an end-March benchmark for a ceiling for current primary spending in the Precautionary and Liquidity Line (PLL).

Data for the first two months of 2024 show the deficit running above target at MKD11.2 billion against an MKD33.5 billion full-year projection, largely due to revenue underperformance (revenues were 14.4% of annual target while spending was 16.2%). The authorities anticipate some improvement in specific revenues lines (CIT should rise as incoming data suggest 2023 corporate profits outperformed expectations in the budget, while the impact of frontloaded purchases of tobacco ahead of an excise hike should fade) and revival in economic activity should support revenues. Current expenditure was 16.9% of the annual target in the first two months. Base effects meant capex grew the strongly in yoy terms, but it was running behind its annual target.

Execution of the 8/10d corridor remains the main fiscal risk. Technical studies on the construction of a few stages, that will inform the final cost of the project, are still to be completed (it is a structural benchmark under the PLL that these are done by mid-April). Labour and raw material cost overruns are also possible. The project is expected to cost around 2% of GDP a year over the five years of construction and buffers are incorporated in the budget.

Fiscal policy is not expected to be an electoral issue. A new government would have the ability to reprioritise the spending in the 2024 budget, but to increase it, it would need to be in response to anticipated revenue outperformance so that the deficit is unchanged. Past VMRO-led governments have been relatively prudent fiscally.

Fitch expects a narrowing of the deficit to 3.8% in 2024 owing to budgeted spending adjustments, recent revenue-raising measures and a rise in economic activity (a revision of nominal GDP that could lower the 2023 outturn is a possibility). Stronger growth and further measures to reduced energy subsidies will narrow the deficit to a forecast 3.4% in 2025.

Financing has been smooth. A record net EUR530 million was raised in the domestic market in 2023 (including the launch of new retail and green retail securities) and demand has remained strong in 2024. There have been inflows from the IMF and World Bank this year and there is a solid pipeline of IFI funding. The authorities expect to pre-finance an 18 January 2025 EUR500 million Eurobond maturity, causing a temporary rise in debt/GDP at end-2024. Uncertainties given domestic elections and potential market volatility around US elections may affect the optimal pre-financing window, in Fitch's view.
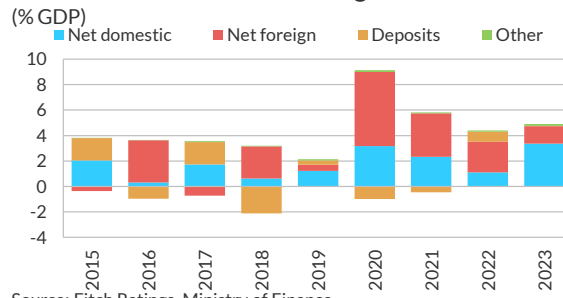
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Fiscal Performance
CG, cumulative

2020 — 2021 — 2022 — 2023 — 2024

(MKDbn)
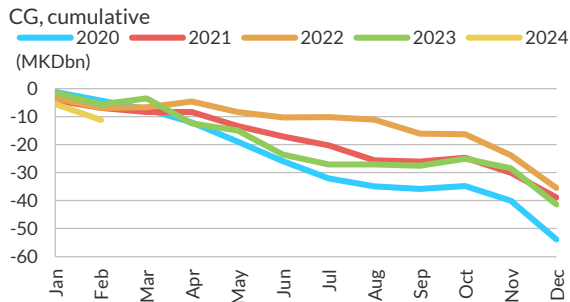
Source: Fitch Ratings, Ministry of Finance

General Government Financing
(% GDP)

■ Net domestic ■ Net foreign ■ Deposits ■ Other


Source: Fitch Ratings, Ministry of Finance

Rare Current Account Surplus in 2023; Return to Deficit Expected

The current account improved sharply, posting a 0.7%-of-GDP surplus in 2023 compared to a deficit of 6.3% in 2022. The surplus (only the second in North Macedonia's history) was the result of a 7.9%-of-GDP narrowing of the trade deficit. This was largely due to lower imports, particularly those of energy (in both price and volume terms) and the drawdown of imported inventories built in 2022. Export growth slowed to 2.5% due to the weakening performance of key trading partners and base effects after new capacity was brought on stream in previous years. The primary income balance worsened by 1.1% of GDP due to a jump in primary income debits reflecting high profits remitted by foreign companies. The second income balance continued to strength with remittances around 50% higher than the average for the five years prior to the pandemic.

Net FDI inflows remained strong, at 3.8% of GDP. Their composition shifted from debt to equity in 2023, potential reflecting reinvested earnings given strong profitability. Official reserves climbed by EUR676 million in 2023, taking them to 4.3 months of current external payments (CXP). Comfort with the reserve position meant the authorities no longer want to draw funds under the PLL with the IMF (which expires in November 2024). The first review of the PLL was completed in November 2023 with a six-month delay and while a benchmark was not completed, the review was approved due to the implementation of structural reforms and pre-election fiscal tightening.
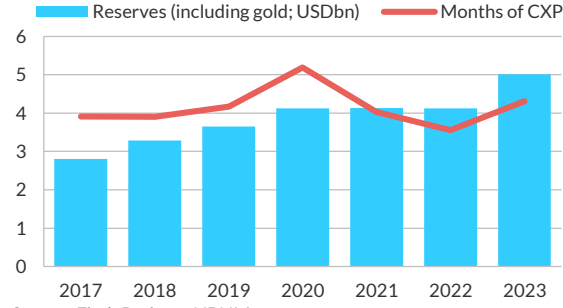
Fitch expects the current account to return to deficit in 2024, of 2.8% of GDP, driven by imports of goods and services associated with the 8/10d project. A strengthening of growth in key trading partners is expected to cause the deficit to narrow to 2.2% in 2025. Net FDI inflows of 3.5%-4% of GDP will support further reserves accumulation, with CXP coverage projected to remain about 4.3 month, and support the exchange-rate peg.

Current Account
(% GDP)

■ Net trade ■ Net services ■ Net primary income ■ Net secondary income — Balance
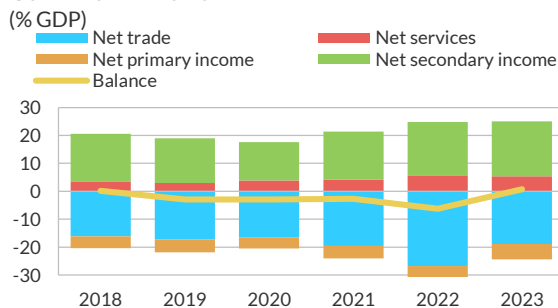
Source: Fitch Ratings, NBNM

Official Reserves

■ Reserves (including gold; USDbn) — Months of CXP

Source: Fitch Ratings, NBNM

Inflation Falling Sharply

Inflation fell to 4% in March from a peak of 19.8% in October 2022, reflecting base effects, particularly for energy and food prices, tighter monetary policy and more recently a temporary freeze on the prices of around 50 basic items introduced in September. The lapsing of the freeze at end-February added 1pp to the headline inflation rate in March. Core inflation has also fallen, to 4.7% in February from a December 2022 peak of 11.1% and inflation expectations have eased.

Rapid growth in wages, up 16.5% in January, is a upside risk to inflation, particularly in the event of post-election public-sector wage adjustments, but profit margins have been built in recent years, providing a buffer. Assessing labour market data has been complicated by methodological changes, with data under the new labour force survey (consistent with Eurostat definitions) only available from 2023. This put end-year unemployment at 13% and labour

force participation (15-64 age group) at 65.2%, suggesting labour market slack remains. Skills shortages are a major challenge for the private sector.

The central bank has maintained its policy rate at 6.3% since September. More recently, there have been further adjustments of reserve requirements to encourage denarisation and sterilise excess liquidity and an increase in the counter-cyclical buffer (to 1.5% from 1.25%, effective January 2025) and other macro-prudential measures that have slowed credit growth and increased resilience of the banking sector. Fitch forecasts that an ECB rate cut (expected by Fitch in June) will start the easing cycle in North Macedonia. The authorities are in discussion with the IMF around measures to improve policy transmission.

Inflation
(%)
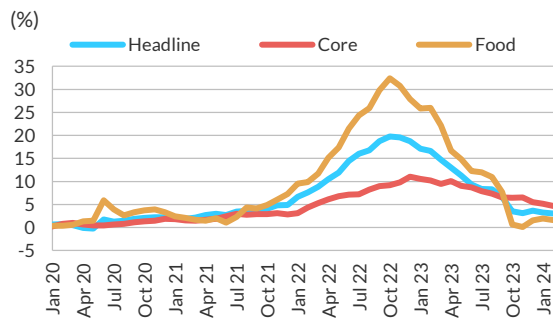
Source: Fitch Ratings, State Statistical Office

House Prices
(% change)
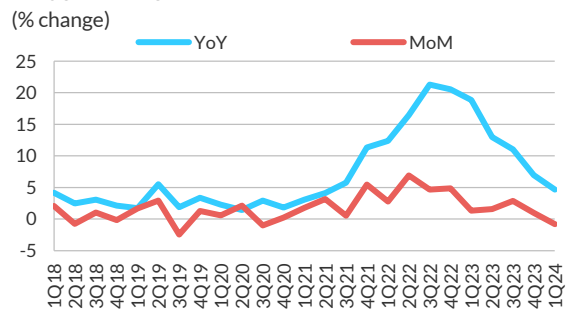
Source: Fitch Ratings, NBNM

Banks Performing Well

The banking sector continues to perform well. Sectoral profits jumped by 48% in 2023 due to higher net interest income and improved operational efficiency; return on assets was 2% last year and return on equity 16.1%. Capital adequacy was at a 17-year high of 18.1% and non-performing loans finished the year at a long-term low of 2.8% (with coverage 150%). A revision in the NPL definition to make it consistent with that of the European Banking Authority pushed NPLs up to 3.2% at end-February (3.9% for corporates and 2.4% for households). Stage two loans are stable.

Credit growth slowed in 2023, ending the year at 5.1% yoy, from 9.4% in December 2022, owing to higher lending rates and macro-prudential measures, and is likely to remain moderate in 2024. The same factors have slowed the growth in mortgage lending to just over 10% and eased the pace of house price growth to 7% yoy in 4Q23 from 20.5% one year earlier. Deposit denarisation rose by almost 2pp to 49.8% at end-2023, retracing most of the losses since the start of the war in Ukraine. There was also a modest improvement in the maturity profile of local-currency deposits.

FitchRatings

Public Debt Dynamics

According to Fitch's baseline projections, gross general government debt/GDP will be on a modest upward trend following the pre-financing related bump in 2024. 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

	2022	2023	2024	2025	2026	2027	2028
Gross general government debt (% of GDP)	50.4	53.1	55.2	54.3	54.6	54.9	55.2
Primary balance (% of GDP)	-3.3	-3.4	-1.9	-1.3	-1.0	-1.0	-1.0
Real GDP growth (%)	2.2	1.0	2.9	3.6	3.5	3.5	3.5
Average nominal effective interest rate (%)	2.4	3.2	3.7	4.1	4.3	4.3	4.4
MKD/USD (annual avearge)	58.6	56.9	56.9	57.0	57.0	57.0	57.0
GDP deflator (%)	7.8	3.6	3.5	2.8	2.0	2.0	2.0
Stock-flow adjustments (% of GDP)	-0.9	-0.2	0.9	-1.0	-0.1	-0.1	-0.1

Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth half standard deviation lower
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit of 3.4% of GDP starting 2024
Exchange rate	25% devaluation at end-2024

Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt
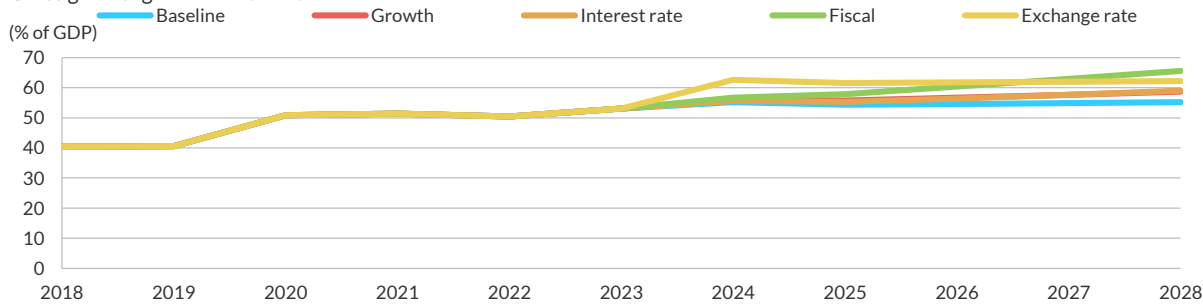
Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt
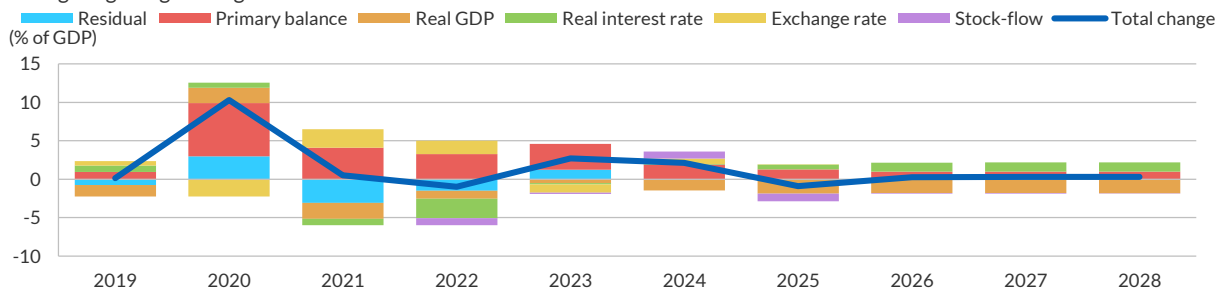
Source: Fitch Ratings, Fitch Debt Dynamics Model

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.

FitchRatings

Data Tables

General Government Summary

(% GDP)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Revenue	31.0	30.4	31.4	29.9	32.0	32.1	34.9	36.2	36.3
Expenditure	33.8	31.5	33.5	38.1	37.4	36.5	39.8	40.0	39.8
o/w interest payments	1.4	1.2	1.2	1.2	1.3	1.1	1.6	1.9	2.2
Interest payments (% revenue)	4.4	3.9	3.7	4.0	3.9	3.6	4.5	5.2	5.9
Primary balance	-1.5	0.1	-1.0	-7.0	-4.1	-3.3	-3.4	-1.9	-1.3
Overall balance	-2.8	-1.1	-2.1	-8.2	-5.4	-4.4	-4.9	-3.8	-3.4
Gross government debt	39.4	40.4	40.6	50.8	51.4	50.4	53.1	55.2	54.3
% of government revenue	127.2	133.0	129.3	169.9	160.5	157.1	152.2	152.5	149.3
Issued in domestic market	15.7	15.3	15.9	19.7	20.5	19.9	22.6	23.0	23.5
Issued in foreign markets	23.6	25.1	24.6	31.2	30.8	30.5	30.5	32.2	30.8
Local currency	8.5	8.6	9.9	11.9	12.0	11.8	12.4	12.9	12.7
Foreign currency	30.8	31.8	30.6	38.9	39.3	38.6	40.7	42.3	41.6
Central government deposits	3.8	5.6	4.8	6.7	5.2	4.8	4.3	5.7	4.4
Net government debt	35.6	34.8	35.7	44.1	46.2	45.6	48.8	49.5	49.9
Financing		1.1	2.1	8.2	5.4	4.4	4.9	3.8	3.4
Domestic borrowing		0.6	1.3	3.2	2.5	1.2	3.6	1.8	1.9
External borrowing		1.9	0.1	8.5	-0.1	0.8	2.4	2.9	0.5
Other financing		-1.4	0.7	-3.5	3.0	2.4	-1.1	-0.9	1.0
Change in deposits (- = increase)		-2.1	0.5	-1.7	1.0	-0.1	0.2	-1.6	0.9
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.7	0.2	-1.8	2.0	2.4	-1.3	0.7	0.1

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Current account	-0.1	0.0	-0.4	-0.4	-0.4	-0.9	0.1	-0.4	-0.4
% GDP	-0.6	0.1	-3.0	-2.9	-2.7	-6.3	0.7	-2.8	-2.2
Goods	-2.0	-2.1	-2.2	-2.1	-2.8	-3.7	-2.8	-3.2	-3.2
Services	0.4	0.4	0.4	0.5	0.6	0.8	0.8	0.6	0.6
Primary income	-0.4	-0.5	-0.6	-0.5	-0.6	-0.6	-0.8	-0.9	-0.7
Secondary income	2.0	2.2	2.0	1.7	2.4	2.6	2.9	3.0	3.0
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.1	-0.5	-0.7	-0.5	-0.7	-1.0	-0.5	-0.8	-0.5
Direct investment	-0.2	-0.7	-0.4	-0.2	-0.5	-0.7	-0.6	-0.5	-0.6
Portfolio investment	0.0	-0.4	0.2	-0.3	-0.1	0.0	0.1	-0.3	0.0
Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.3	0.6	-0.5	0.0	-0.1	-0.3	0.0	0.0	0.1
Net errors and omissions	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.0
Change in reserves (+ = increase)	-0.2	0.7	0.4	0.1	0.4	0.2	0.6	0.4	0.1
International reserves, incl. gold	2.8	3.3	3.7	4.1	4.1	4.1	5.0	5.4	5.5
Liquidity ratio (%)	193.7	142.5	213.3	173.1	165.8	195.7	126.1	178.9	160.4
Memo									
Current external receipts (CXR)	8.5	10.1	10.1	9.2	11.9	13.0	14.1	14.5	15.0
Current external payments (CXP)	8.6	10.1	10.5	9.5	12.3	13.9	14.0	15.0	15.4
CXR growth (%)	13.8	18.7	0.2	-9.3	29.8	9.4	7.8	3.1	3.7
CXP growth (%)	10.5	17.6	4.1	-9.2	28.9	13.1	0.4	7.1	3.1
Gross external financing requirement	0.7	1.1	0.9	1.4	1.7	1.6	1.3	1.6	2.0
% International reserves	25.0	37.9	26.9	37.2	41.8	39.4	30.6	32.7	37.5
Net external borrowing	0.1	0.5	0.6	0.8	1.3	1.7	0.6	1.1	0.7

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Gross external debt	8.8	9.0	9.1	10.5	10.9	11.6	11.9	12.6	12.9
% GDP	78.0	70.8	72.4	84.8	77.5	84.4	80.4	80.0	77.0
% CXR	103.5	88.8	90.0	114.1	91.0	88.7	84.4	86.8	85.6
Short-term debt (% GXD)	14.0	13.8	14.3	13.0	14.2	18.6	14.4	14.0	14.2
By debtor									
Sovereign	3.1	3.3	3.2	4.1	4.3	4.4	4.6	5.2	5.3
Monetary authorities	0.1	0.1	0.1	0.1	0.4	0.7	0.7	0.7	0.8
General government	3.1	3.2	3.1	4.0	3.8	3.7	3.9	4.5	4.6
Banks	0.7	0.7	0.7	0.9	0.9	1.0	1.0	1.1	1.3
Other sectors	5.0	5.0	5.1	5.5	5.6	6.2	6.3	6.3	6.3
Gross external assets (non-equity)	5.7	6.3	6.3	6.9	7.1	7.3	8.8	9.8	10.5
Sovereign	2.8	3.3	3.7	4.1	4.2	4.3	5.2	5.6	5.7
International reserves, incl. gold	2.8	3.3	3.7	4.1	4.1	4.1	5.0	5.4	5.5
Other sovereign assets	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Banks	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.9	0.9
Other sectors	2.1	2.2	2.0	2.0	2.1	2.3	2.8	3.3	3.8
Net external debt	3.1	2.7	2.8	3.6	3.7	4.2	3.1	2.7	2.3
% GDP	27.5	21.2	22.1	29.4	26.8	30.9	20.7	17.5	14.0
Sovereign	0.3	0.0	-0.4	0.0	0.1	0.1	-0.7	-0.5	-0.4
Banks	-0.1	-0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3
Other sectors	2.9	2.8	3.2	3.5	3.5	3.9	3.5	3.0	2.4
International investment position									
Assets	6.2	6.8	6.9	7.6	8.0	8.2	9.8	11.0	11.8
Liabilities	13.2	13.7	14.1	16.1	16.2	16.9	17.3	18.4	18.8
Net	-7.0	-6.9	-7.2	-8.5	-8.2	-8.7	-7.5	-7.4	-7.0
Net sovereign	-0.3	0.0	0.4	0.0	-0.1	-0.1	0.7	0.5	0.4
% GDP	-3.1	-0.3	3.4	0.0	-0.8	-0.9	4.6	3.1	2.6
External debt service (principal + interest)	0.8	1.3	0.7	1.2	1.6	1.0	1.7	1.6	2.1
Interest (% CXR)	2.0	2.0	1.9	2.3	2.0	1.7	2.6	2.6	3.2

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

External Debt Service Schedule on Medium- and Long-Term Debt at end-2023

(USDmn)	2024	2025	2026	2027	2028
External Debt Amortisations	**429.7**	**801.1**	**974.4**	**809.6**	**892.8**
Official bilateral	5.5	5.6	6.5	20.8	23.5
Multilateral	199.2	170.5	267.7	288.6	169.2
Bonds	225.0	625.0	700.0	500.0	700.0
Other private creditors	0.0	0.0	0.1	0.1	0.1
External Interest	**166.3**	**201.1**	**214.4**	**240.0**	**244.3**
Domestic Debt Amortisation	**302.9**	**295.4**	**255.3**	**244.3**	**368.0**
Domestic Interest	**107.0**	**133.2**	**150.4**	**165.6**	**187.4**
Total Government Debt Service	**1,005.9**	**1,430.8**	**1,594.4**	**1,459.5**	**1,692.5**

Source: Fitch Ratings, Ministry of Finance

FitchRatings

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			**4.96 = BB**
Input Indicator	Weight (%)	2022	2023	2024	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								**3.44**
Governance indicators (percentile)	unavailable	n.a.	52.5	n.a.	-	52.5	0.077	4.06
GDP per capita (USD)	unavailable	n.a.	7,078	n.a.	Percentile	35.6	0.038	1.36
Nominal GDP (% world GDP)	unavailable	n.a.	0.01	n.a.	Natural log	-4.2	0.627	-2.65
Most recent default or restructuring	unavailable	n.a.	2000	n.a.	Inverse 0-1[a]	0.0	-1.822	-0.01
Broad money (% GDP)	unavailable	n.a.	70.8	n.a.	Natural log	4.3	0.158	0.67
Macroeconomic performance, policies and prospects								**-1.19**
Real GDP growth volatility	unavailable	n.a.	2.6	n.a.	Natural log	1.0	-0.728	-0.71
Consumer price inflation	unavailable	14.1	9.4	3.7	3-yr average[b]	9.1	-0.067	-0.61
Real GDP growth	unavailable	2.1	1.0	2.9	3-yr average	2.0	0.065	0.13
Public finances								**-2.14**
Gross general govt debt (% GDP)	unavailable	50.4	53.1	55.2	3-yr average	52.9	-0.023	-1.20
General govt interest (% revenue)	unavailable	3.6	4.5	5.2	3-yr average	4.4	-0.044	-0.19
General govt fiscal balance (% GDP)	unavailable	-4.4	-4.9	-3.8	3-yr average	-4.4	0.044	-0.19
FC debt (% of total general govt debt)	unavailable	77.8	78.4	76.7	3-yr average	77.6	-0.007	-0.56
External finances								**0.10**
Reserve currency (RC) flexibility	unavailable	n.a.	0.0	n.a.	RC score 0 - 4.5[c]	0.0	0.509	0
SNFA (% of GDP)	unavailable	-0.9	4.6	3.1	3-yr average	2.3	0.011	0.02
Commodity dependence	unavailable	n.a.	9.1	n.a.	Latest	9.1	-0.004	-0.04
FX reserves (months of CXP)	unavailable	n.a.	4.3	n.a.	n.a. if RC score> 0	4.3	0.029	0.13
External interest service (% CXR)	unavailable	1.7	2.6	2.6	3-yr average	2.3	-0.007	-0.02
CAB + net FDI (% GDP)	unavailable	-1.3	4.5	0.6	3-yr average	1.3	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 Long-Term Foreign-Currency Issuer Default Rating (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

The Country Ceiling for North Macedonia is 'BBB-', 1 notch above the LT FC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of 0 notches above the IDR. Fitch's rating committee applied a +1 notch qualitative adjustment to this, under the Long-Term Institutional Characteristics pillar reflecting the importance of FDI to North Macedonia's open economy and the EU accession process.

Overall Country Ceiling Uplift (CCM + QA, notches)			**+1**
Country Ceiling Model (CCM, notches)			**0**
Pillar I = Balance of payments restrictions			**0**
Current account restrictions (% of 40)	Latest	45.0	+1
Capital account restrictions (% of 69)	Latest	55.1	0
Combined pillar II & III incentives score			**+1**
Pillar II = Long-term institutional characteristics			**+1**
Governance (WB WGI)	Latest	52.5	+2
International trade			+2
Trade openness	2019-23 average	87.5	+3
Volatility of change in CXR (across 10 years)	2023	12.4	+1
Export share to FTA partners	2019-23 average	94.1	+3
International financial integration[a]	2019-23 average	35.8	+1
Pillar III = Near-term risks			**+1**
Macro-financial stability risks			+1
Composite inflation risk score			0
Volatility of CPI (across 10 years)	2023	4.8	0
Recent CPI peak	2019-23 max	14.1	+2
Cumulative broad money growth	2018-23 change %	42.8	+2
Volatility of change in REER (across 10 years)	2023	2.4	+3
Dollarisation	Most recent	46.0	+1
Exchange rate risks			+1
Net external debt (% of CXR)	2021-23 average	28.5	+2
Exchange rate regime	Latest	Stabilised arrangement	+1
Qualitative Adjustment (QA, notches)			**+1**
Pillar I = Balance of payments restrictions			0
Pillar II = Long-term institutional characteristics			+1
Pillar III = Near-term macro-financial stability risks			0

[a] Data for international financial integration is the average of private external assets (% of GDP) & private external debt (% GDP).
Source: Fitch Ratings

Full Rating History

Date	Foreign-Currency Rating			Local-Currency Rating			Country Ceiling
	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	
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 organisations, 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 World Bank Worldwide Governance Indicators (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 respective Governance Indicator, this has a positive impact on the credit profile.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. 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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.