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DEPREZ, Director

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To: Ms Thérèse BLANCHET, Secretary-General of the Council of the  
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Delegations will find attached document SWD(2026) 107 final.

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SWD(2026) 107 final

**COMMISSION STAFF WORKING DOCUMENT**

**ECONOMIC REFORM PROGRAMME**

**OF**

**NORTH MACEDONIA**  
**(2026-2028)**

**COMMISSION ASSESSMENT**

## Table of contents

<b>1. EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>2. ECONOMIC OUTLOOK AND RISKS.....</b>	<b>5</b>
<b>3. PUBLIC FINANCE.....</b>	<b>9</b>
<b>4. ADDRESSING STRUCTURAL CHALLENGES – THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK .....</b>	<b>18</b>
<b>ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED IN MAY 2025 .....</b>	<b>21</b>

### 1. EXECUTIVE SUMMARY

The post-pandemic recovery gathered pace in 2025 and the economic reform programme (ERP) projects real GDP growth to accelerate further to 4% on average between 2026 and

**2028, driven by domestic demand**<sup>1</sup>. Real output increased by 3.5% in 2025<sup>2</sup>, mainly as public infrastructure investment intensified and household consumption posted solid growth. The ERP projects a notable shift in the drivers of growth over the ERP timeline as the contribution of domestic demand declines, while the negative contribution from the external sector is expected to gradually diminish and become neutral in 2028. Core inflation, although somewhat lower than in 2024, remained elevated. Resurging food inflation drove headline inflation to 4.1, up from 3.5% in 2024.<sup>3</sup> ERP projections point to a gradual deceleration in inflation. Headline inflation is expected to fall to 2.5% in 2026 and to 2% in 2027 and beyond. The main risks surrounding the ERP's growth scenario focus on the potential deferment of public investment caused by administrative and technical obstacles, as well as uncertainties for the macroeconomic and inflation outlook stemming from changes in the supply chains of Germany's car manufacturing industry, and, more broadly, from trade and geopolitical tensions, notably the war in Iran.

**The ERP's fiscal scenario projects a gradual reduction of the budget deficit with consolidation deriving entirely from the expenditure side, but without specifying any concrete measures.** While the 4% deficit target was met in 2025, revenue and capital spending both remained much lower than planned. A mid-year rebalancing shifted funds from capital expenditure to current spending, particularly for wages and pensions. The ERP projects a gradual reduction in the deficit and compliance with the 3%-of-GDP deficit rule from 2027. The revenue ratio is expected to decline over the ERP timeline, implying that fiscal consolidation will depend solely on restraining expenditure. The expenditure ratio is projected to decline by 1.9 pps to 38.9% between 2025 and 2028. However, the ERP lacks details on specific policy measures to rationalise and reduce expenditure. Public debt has been elevated since the pandemic and is projected to peak in 2027 at 62.1% of GDP. Financing needs are high for 2026-2028, averaging 9.7% of GDP, which reflects the upcoming repayment of three large Eurobonds.

The main challenges facing North Macedonia are as follows.

- **Fiscal consolidation plans need to be backed by concrete measures to create fiscal space without jeopardising growth-enhancing capital expenditure.** The government is pursuing fiscal consolidation and managed to reduce the deficit as planned in 2025. However, this was caused by a mid-year reallocation of budgeted capital expenditure to fund previously unbudgeted ad hoc increases in the wage bill and in pensions. In order to achieve its consolidation targets for 2026-2028, and also to avoid jeopardising the disinflation process, the government needs to rein in current expenditure. Consolidation plans need to be underpinned by concrete measures whose fiscal impact is clearly assessed. In particular, reining in spending on wages and pensions would avoid further increasing the already high share of rigid current expenditure and help rebuild fiscal space.
- **Improving revenue projections and strengthening revenue collection are vital to successful consolidation.** North Macedonia's revenue ratio is relatively low, and tax revenue

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<sup>1</sup> The assessment is based on the ERP submitted on 15 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

<sup>2</sup> Based on quarterly estimates.

<sup>3</sup> National classification. Based on the Harmonized Indices of Consumer Prices (HICP), headline inflation amounted to 4.3% in 2025, up from 4.2% in 2024.

remained much below the full-year target in 2025. This points to shortcomings in revenue planning, stemming from overly optimistic growth assumptions, compliance weaknesses, and significant tax expenditure, particularly in relation to VAT. To credibly pursue consolidation, the government needs to base revenue targets on more realistic assumptions and strengthen revenue collection by improving tax compliance. This could involve building capacity within the tax administration, implementing measures to formalise the informal economy, and assessing opportunities for additional tax revenue, including by reducing tax expenditure.

- **Public investment management needs to be improved to achieve a better execution of the capital budget.** To support domestic demand-led growth, which is the pillar of the ERP's baseline scenario, improving the selection, planning and implementation of capital projects is vital. Budgeted capital expenditure is regularly subject to substantial under-implementation and execution was exceptionally low in 2025. This is often caused by the administrative and technical complexities of public works which lead to their deferment. These shortcomings increase fiscal risks for the government, which is committed to implementing the new procedures set out in the April 2025 Public Investment Management (PIM) Decree, but it is constrained by a lack of staffing and IT resources. In particular, it urgently needs to set up a new IT platform (Integrated Financial Management and Information System), which would also support the monitoring of fiscal risks in other areas, such as the build-up of unpaid liabilities by the government.
- **Key structural challenges hold back productivity growth and need to be addressed.** Shortcomings in education curricula contribute to the significant skills mismatch between the qualifications of graduates and the needs of employers, which drive emigration and wage growth, in particular in low-skilled sectors. The large informal economy distorts competition for domestic companies and formalising it would boost public revenue. Productivity growth is held back by poor public road and rail infrastructure and by the low level of digitalisation and of innovation. Moreover, the economy relies heavily on fossil fuels and capacity to produce energy from renewable sources needs to be expanded; the latter requires major investment. These challenges are expected to be addressed through key structural reforms identified in the country's Reform Agenda under the Growth Plan for the Western Balkans.

**Implementation of the policy guidance set out in the conclusions of the May 2025 Economic and Financial Dialogue has been limited.** The government revised the 2025 budget and reallocated large sums from capital to current expenditure. While, as a share of GDP, wages remained broadly stable compared to 2024, the share of pensions rose further. The government adopted several by-laws to the Organic Budget Law (OBL), including on budget classification, but it postponed the full implementation of the OBL from 2026 to 2028. The new IT platform, which is vital for the full implementation of the OBL, is seriously delayed and a new tender still needs to be launched. The Fiscal Council remains severely understaffed and underfinanced. The government has not yet adopted the draft Law on public-private partnerships. Monetary policy remained focused on price stability, but the Deposit Insurance Fund and Bank Resolution Fund are not yet operational.

## 2. ECONOMIC OUTLOOK AND RISKS

**Economic growth accelerated in 2025.**<sup>4</sup> Economic activity was largely driven by stronger investment growth as works on public road projects accelerated and private investment, making up some 75% of total investment, strengthened, benefiting from government-subsidised corporate loans. Household consumption growth picked up from its sluggish performance in 2024, supported by rising real disposable incomes due to strong pension and wage growth, easing inflation, and robust credit expansion. The contribution of public consumption has also increased, mainly reflecting strong public sector wage hikes. Net exports detracted from GDP growth, mainly as muted external demand continued to weigh on exports. Overall, real GDP growth was 3.5% in 2025, up from 3% in 2024.

**The ERP projects the economy to grow by an average of 4% per year between 2026 and 2028, driven entirely by domestic demand.** The main growth driver is expected to be gross fixed capital formation due to a further intensification of public road works, government support for private investment, and an uptick in foreign direct investment (FDI). Overall, investment is projected to increase by 7.4% year-on-year (y-o-y) on average in 2026-2028, contributing 2.4 pps to annual GDP growth and raising its share of GDP from 31.5% to 34.3%. Private consumption growth is set to moderate slightly in 2026 and to pick up in 2027 and 2028 (to 2.8% in both years), contributing 1.8 pps to annual GDP growth. Export growth is projected to accelerate gradually and to reach 5.6% in 2028. Import growth is also projected to be strong, at 4.7% a year on average, but its pace is set to slow somewhat in 2026-2028. This means that the contribution of net exports to GDP growth, which was strongly negative in recent years, is set to gradually improve and become neutral by 2028. This is a more cautious assessment than in the previous year's ERP, which assumed a marginally positive contribution of the external balance as early as 2027. Compared to last year's ERP, growth projections for 2026-2027 have been revised downwards, by around 0.2 pps and 0.4 pps respectively, owing to a more pessimistic outlook for the external balance. Still, the presented outlook compares favourably with the Commission's autumn 2025 forecast, which projects GDP growth to be 3.3% in 2026 and in 2027. The ERP calculates that the output gap is still negative and projects it to close (according to two out of three calculation methods used) in 2028 or 2030, depending on the calculation method. Two alternative scenarios are a useful complement to the baseline scenario. The first assumes a materialisation of downside risks due to heightened geopolitical tensions with lower real exports and FDI, which would reduce GDP growth by 1 pp. compared to the baseline. The second scenario assumes that domestic downside risks materialise with significantly weaker investment growth, mainly due to reduced implementation of public infrastructure projects. This would lower average annual output growth by 0.5 pps compared to the baseline.

**The government's baseline scenario appears optimistic given the risks surrounding domestic and foreign demand.** Capital expenditure implementation is consistently low and regularly subject to cuts mid-year. The main public works project, the construction of parts of Trans-European Transport Corridors 8 and 10d, is prone to administrative and technical execution problems. These challenges derive in part from shortcomings in public investment management

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<sup>4</sup> Macroeconomic and fiscal estimates and forecasts covering the period 2024-2027 have been taken from the ERP; if available, preliminary macroeconomic and fiscal out-turn data for 2024 have been taken from the relevant national sources (Statistical Office, Ministry of Finance, Central Bank).

by the government. A strengthening of domestic demand caused by the road project is credible, given that the contract provides for a large domestic component. However, the investment outlook for private companies remains uncertain due to challenges that may affect their competitiveness. These include high wage growth amid low productivity growth and severe labour shortages, particularly in low-skilled sectors. Moreover, the baseline scenario's projection of a gradual improvement in the external balance may be hindered by slow recovery in foreign demand, given the economy's structural vulnerability to external shocks. This vulnerability partly arises from its high energy intensity and dependency on energy imports, along with its tight integration into European car-manufacturing supply chains. These factors increase economic risks related to uncertainties in the macroeconomic and inflation outlook, especially amid current geopolitical and trade tensions, notably those stemming from the war in Iran.

Table 1:

**North Macedonia - comparison of macroeconomic developments and forecasts**

	2024		2025		2026		2027		2028	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
<b>Real GDP (% change)</b>	3.0	<b>3.0</b>	3.2	<b>3.5</b>	3.3	<b>3.8</b>	3.3	<b>4.0</b>	n.a.	<b>4.2</b>
<i>Contributions:</i>										
- final domestic demand	2.7	<b>4.6</b>	4.0	<b>4.8</b>	3.8	<b>4.6</b>	3.8	<b>4.4</b>	n.a.	<b>4.2</b>
- change in inventories	1.8	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	n.a.	n.a.
- external balance of goods and services	-1.6	<b>-1.6</b>	-0.8	<b>-1.3</b>	-0.5	<b>-0.7</b>	-0.5	<b>-0.4</b>	n.a.	<b>0.0</b>
<b>Employment (% change)</b>	1.3	<b>0.9</b>	1.1	<b>1.6</b>	1.0	<b>1.6</b>	1.0	<b>1.7</b>	n.a.	<b>1.8</b>
<b>Unemployment rate (%)</b>	12.5	<b>12.4</b>	11.7	<b>11.2</b>	11.3	<b>10.1</b>	11.0	<b>9.2</b>	n.a.	<b>8.5</b>
<b>GDP deflator (% change)</b>	3.7	<b>3.6</b>	3.5	<b>4.2</b>	3.1	<b>2.7</b>	1.8	<b>2.3</b>	n.a.	<b>2.4</b>
<b>CPI inflation (%)</b>	3.5	<b>3.5</b>	3.9	<b>3.9</b>	3.2	<b>2.5</b>	2.3	<b>2.0</b>	n.a.	n.a.
<b>Current account balance (% of GDP)</b>	-2.2	<b>-2.2</b>	-2.3	<b>-4.2</b>	-2.1	<b>-4.1</b>	-2.2	<b>-3.7</b>	n.a.	<b>-2.6</b>
<b>General government balance (% of GDP)</b>	-4.4	<b>-4.5</b>	-4.3	<b>-3.9</b>	-3.8	<b>-3.5</b>	-3.2	<b>-3.0</b>	n.a.	<b>-3.0</b>
<b>Government gross debt (% of GDP)</b>	52.9	<b>52.9</b>	54.1	<b>52.1</b>	54.6	<b>53.3</b>	55.0	<b>54.1</b>	n.a.	<b>53.5</b>

Sources: Economic Reform Programme (ERP) 2026, Commission Autumn 2025 forecast.

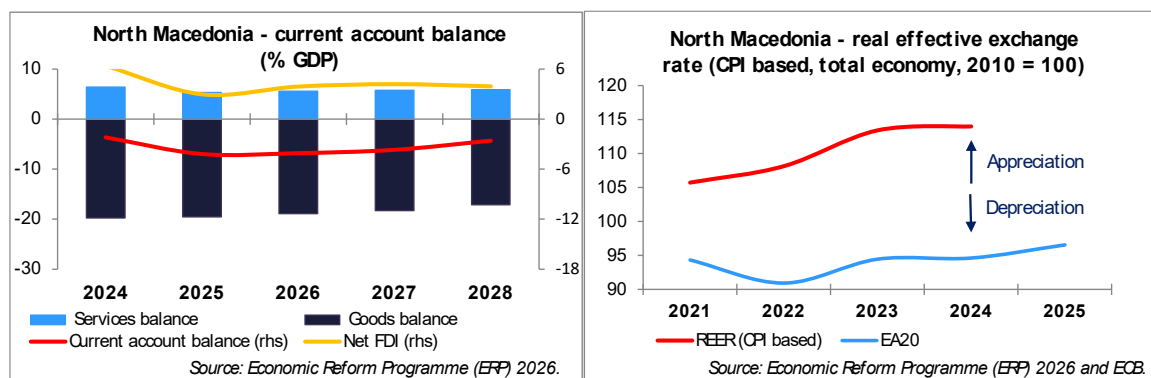
**Sticky core inflation and rising food prices have hampered the disinflation process.** Average annual consumer price inflation accelerated from 3.5% in 2024 to 4.1% in 2025. Core components of inflation, in particular prices in the transport and hospitality sectors, remained key drivers of overall inflation in 2025, fuelled by rising labour costs. The increase (excluding energy, liquid fuels and lubricants and unprocessed food) amounted to 5.0% on average in 2025, almost the same as in 2024 (5.2%). Food price inflation accelerated to 5.2% on average in 2025 (2024: 2.9%), despite the government's temporary price controls which ended in April 2025. They included limits on gross profit margins for basic food products but did not address the underlying drivers of inflation. The cost of electricity, gas and other fuels (10% of the index) rose slightly, by 1.8% on average, softened by the continued decline in energy prices. The ERP projects a gradual deceleration of inflation. Headline inflation is assumed to decline to 2.5% in 2026 and then to 2% in 2027 and beyond. Core inflation is set to remain the largest contributor, while energy and food prices are expected to moderate. The ERP rightly acknowledges upside risks to inflation from volatile commodity prices as well as from electricity prices in the regulated market and further rapid growth in wages and pensions. The central bank maintained the key policy rate largely unchanged throughout 2025. It also adjusted its monetary policy framework in December 2025, with the aim of improving policy transmission to the money market and increasing transparency

of its policy <sup>(5)</sup>. To this end it has set the main policy rate at 4%, the level of the effective policy rate. Monetary policy is bound by the de facto currency peg to the euro.

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<sup>5</sup> The maturity of Central Bank bills as the main policy instrument was shortened from previously 7 weeks to 7 days with more frequent tendering, and a symmetric corridor was created around this rate.

## External competitiveness and current account



**The ERP expects a significant reduction in the current account deficit, driven by an improvement in the merchandise trade balance.** In 2025, the current account deficit widened to 4.5% of GDP from 2.2% in 2024, mainly due to a lower secondary income surplus, as remittances fell as a share of GDP after exceptionally high levels in 2021-2023, and a decrease in the services trade surplus. Net FDI inflows amounted to 1.5% of GDP in 2025, below their five-year average (of 3.9% from 2019 to 2024, and much lower than the exceptionally high inflows in 2024 (6.6% of GDP). FDI inflows thus covered only about a third of the current account deficit in 2025. There were outflows mainly in the more volatile form of intercompany debt, while equity investments showed net inflows. Gross external debt, excluding central bank transactions, stood at 73.5% of GDP at the end of the third quarter, down 1.9 pps y-o-y. International reserves were down 2.1% y-o-y at end-year, covering about 4.6 months of prospective imports of goods and services. The ERP projects the current account deficit to narrow gradually, from 4.7% of GDP in 2025 to 2.6% in 2028. This improvement is expected to result entirely from a decline in the merchandise trade deficit, which is projected to fall from 19.6% of GDP in 2025 to 17.2% in 2028, driven by a 4.6 pps fall in imports. The ERP mentions briefly that this is in part due to a further decline in energy imports, which might be challenging given the current energy price shock. These projections also seem optimistic due to the high share of imported inputs for exports and the relatively high import elasticity of domestic demand. On the other hand, the secondary income surplus is credibly projected to decline somewhat further during the ERP timeline, from 14.2% of GDP in 2025 to 13.2% in 2028, reflecting the continuing normalisation of remittance inflows. The surplus in the services trade balance is projected to increase by some 0.5 pps between 2025 and 2028, which is plausible given ongoing public road carried out by a foreign contractor using domestic IT and other services. Net FDI inflows as a share of GDP are expected to increase to around 4% between 2026 and 2028, fully financing the projected current account deficit<sup>6</sup>.

**The banking sector remains well-capitalised and liquid.** The banks' capital adequacy ratio, already at comfortable levels, increased further to 19.5% in the third quarter of 2025. The liquidity coverage ratio, i.e. the banking sector's ratio between current assets and current liabilities, stood at 267% at the end of the third quarter 2025, much higher than the Basel-III regulatory minimum of 100%. Liquid assets made up over 30% of total assets and covered the majority of short-term

<sup>6</sup> For 2025, however, the ERP projects that net FDI inflows (3.0% of GDP) will not cover the current account deficit (4.7%). This is a markedly more pessimistic assumption than in the previous ERP, where the current account deficit was projected to be much smaller and fully financed by FDI inflows, which were expected to be much higher in 2025.

liabilities and household deposits. Bank lending to the private sector picked up further throughout 2025 (+13.2% y-o-y in Q3-2025). Lending to corporates rose particularly strongly in 2025, supported by government subsidies from a EUR 500 million loan from Hungary, half of which was allocated to private investment loans. Asset quality remained high, with the ratio of non-performing to total loans declining further, to the historically low level of 2.3%. The annual growth of deposits accelerated further in 2025 (+13.4% y-o-y in Q3-2025), driven by deposits in domestic currency and by longer-term deposits.

Table 2:

**North Macedonia - financial sector indicators**

	2021	2022	2023	2024	2025
<b>Total assets of the banking system (EURmillion)</b>	10 363	11 103	12 131	13 405	14 309**
<b>Foreign ownership of banking system (%)</b>	76.3	77.7	78.8	79.7	80.5*
<b>Credit growth (% average)</b>	5.8	9.6	6.2	7.6	12.5
<b>Deposit growth (% average)</b>	8.3	4.2	9.1	9.8	12.4
<b>Loan-to-deposit ratio (end of period)</b>	81.8	85.5	81.6	81.5	
<b>Financial soundness indicators (% end of period)</b>					
- non-performing loans to total loans	3.2	2.9	2.8	2.7	2.3**
- regulatory capital to risk-weighted assets	15.8	16.5	17.1	18.1	18.5**
- liquid assets to total assets	32.4	30.0	31.8	32.6	30.6**
- return on equity	12.9	12.2	16.1	17.6	17.5**
- foreign exchange loans to total loans	41.2	43.2	42.2	38.6	36.7**

\* Q2-2025 \*\* Q3-2025.

Sources: National Bank of North Macedonia, IMF.

**The central bank has implemented macroprudential measures to control credit growth.** The central bank has raised the countercyclical capital buffer to 1.75% of banks' exposures, amidst solid bank profitability, supporting banks' ability to absorb risks. Buffers were further raised by an additional 0.25 pps to 2%, taking effect in the fourth quarter of 2026. The central bank had gradually raised the capital buffer since its implementation in August 2023 at a rate of 0.5%, based on cyclical systemic risk assessments and credit growth. In December 2025, the central bank tightened the borrower-based measures for the real-estate sector, which it had introduced in 2023, as pressures in the housing market led to increasing growth of mortgages (+15.5% in 2025) and rising real-estate prices (+22%). Applicable from 1 December 2025, the loan-to-value ratio, except for first-home buyers, was lowered from 85% to 75%.

**The entry into force of the Bank Resolution Law was deferred.** The 2023 Bank Resolution Law, which sets up a Bank Resolution Fund and guidelines for the process of bank resolution, with the central bank as the responsible body, will enter into force in July 2026 rather than in October 2025 as initially planned. The delay became necessary as setting up the institution that would manage the Bank Resolution Fund as well as the Deposit Insurance Fund hinges on the government's adoption of the Deposit Insurance Law, which is lagging behind.

### 3. PUBLIC FINANCE

**While the deficit target was met, revenue fell short of targets in 2025, and current spending was increased mid-year at the expense of capital expenditure.** The fiscal outcome in 2025 was marked by a substantial revenue shortfall compared to the government's target, which was offset

by significant under-execution of capital expenditure. Central government total revenues amounted to only 92% of the revised full-year plan, and to 32.2% of GDP.<sup>7</sup> Tax income, making up about 57% of revenue, amounted to less than 96% of the revised plan, and non-tax revenue was significantly under-implemented at 61.8%. Total expenditure execution stood at 93.0% of the full-year revised plan target, amounting to 36.2% of GDP, with capital expenditure amounting to only 65% of the target and to 2.7% of GDP (-0.3 pps y-o-y)<sup>(8)</sup>. This ratio is considerably lower than anticipated in the April 2025 fiscal strategy and in the ERP (5.1%). A mid-year budget revision and a subsequent budget rebalancing did not raise the deficit target, but reduced planned capital expenditure by 6.6%, and raised current expenditure by 3%, mostly benefiting the pensions fund and the wage bill. The revenue projection was raised by 1.7%, largely on account of a March 2025 transfer of profits from the central bank to the government, amounting to some 0.9% of total revenue<sup>9</sup>. The additional spending allocations were necessary to fund, in particular, further linear increases in pensions (+2.1% compared to the original budget)<sup>10</sup>, a rise in public-sector wages (+2.2%, in particular for the health and education sectors and for employees of the Ministry of Internal Affairs), goods and services (+6.5%), and additional projects by municipalities. As a result, pension spending as a share of GDP rose by 0.9 pps to 11.8%. The share of public-sector wages increased slightly, by 0.1 pps, to 7.5% of GDP (general government). The general government budget deficit for the full year 2025 amounted to 4% of GDP, in line with the government's target.

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<sup>7</sup> General government revenues amounted to 33.9% of GDP, compared with the ERP projection of 36.9%, while total expenditure amounted to 37.9% of GDP, compared with the ERP projection of 40.8%.

<sup>8</sup> One of the reasons explaining the low capital expenditure implementation in 2025, according to the government, is a change in the methodology for recording capital expenditures. The government reclassified 'unproductive capital expenditure', such as government guarantees for the debt of other public-sector entities, as current expenditure and moved it to a new budget line. Apart from that, the government, at the time of the mid-year rebalancing, cited administrative delays in funding disbursements and implementation bottlenecks as additional reasons.

<sup>9</sup> In early 2025, the government had raised the share of these profits that it is entitled to use for its budget to 85%.

<sup>10</sup> The regular twice-yearly pensions increases have been implemented as linear increases since September 2024, amounting in total to some MKD 7 000 (EUR 113 or about one quarter of the current minimum wage) per pensioner including the latest (September 2025) rise.

Table 3:

**North Macedonia - composition of the budgetary adjustment (% of GDP)**

	2024	2025	2026	2027	2028	Change: 2025-28
<b>Revenues</b>	33.4	36.9	35.7	36.0	35.9	-1.0
- Taxes and social security contributions	31.1	32.9	32.3	32.5	32.6	-0.3
- Other (residual)	2.2	4.0	3.4	3.5	3.3	-0.7
<b>Expenditure</b>	37.9	40.8	39.3	39.1	38.9	-1.9
- Primary expenditure	36.0	38.8	37.3	37.0	36.9	-1.9
<i>of which:</i>						
Gross fixed capital formation	3.8	5.1	4.3	4.8	5.8	0.7
Consumption	10.8	11.6	11.4	10.8	10.5	-1.2
Transfers & subsidies	21.5	22.1	21.7	21.4	20.7	-1.5
Other (residual)	0.0	0.0	0.0	0.0	0.0	0.0
- Interest payments	1.9	2.0	1.9	2.0	2.0	0.0
<b>Budget balance</b>	-4.5	-3.9	-3.5	-3.0	-3.0	0.9
- Cyclically adjusted		-3.7	-3.3	-2.8	-2.9	0.8
<b>Primary balance</b>	-2.7	-1.9	-1.6	-1.0	-1.0	0.9
- Cyclically adjusted		-1.7	-1.4	-0.9	-0.9	0.8
<b>Gross debt level</b>	52.9	52.1	53.3	54.1	53.5	1.4

Sources: *Economic Reform Programme (ERP) 2026, Commission calculations.*

**The ERP's fiscal scenario projects a gradual reduction of the budget deficit in 2026-2028, based on expenditure restraint.** The general government revenue ratio is expected to decline from 36.9% of GDP (ERP estimate) in 2025 to 35.9% in 2028, with a large fall expected in 2026 and a marginal increase thereafter<sup>11</sup>. The ERP refers to only one revenue-enhancing tax measure that would have a fiscal impact as of 2026, adopted by the Parliament in December 2024 and providing for an increase in the profit tax, with an expected additional revenue of EUR 26 million (about 0.4% of planned revenue) in 2026<sup>12</sup>. The general government expenditure ratio is projected to decline gradually from 40.8% of GDP in 2025 to 38.9% in 2028. This would be mainly driven by a fall in capital spending, as well as in government consumption, including wages and subsidies. Capital spending is set to decline from 5.1% in 2025 to 4.3% in 2026, and to rise thereafter to reach 5.8% in 2028. Hence, consolidation would derive entirely from the expenditure side and it would be heavily frontloaded (2026: -1.5 pps in the expenditure ratio)<sup>13</sup>.

<sup>11</sup> In comparison with the April 2025 medium-term fiscal strategy, revenue and expenditure projections in terms of GDP are higher in this year's ERP, while the shares of the primary balance and of interest expenditure are broadly similar. Moreover, capital expenditure for 2026 was projected at 4.7% of GDP in the fiscal strategy, compared with 4.3% in the ERP Annex tables. These deviations would have warranted an explanation in the ERP.

<sup>12</sup> The Law on the global minimum corporate profit tax introduces a tax rate of an additional 5 pps on domestic companies which are subsidiaries of multinational companies and have an annual turnover of EUR 750 million. For these companies, the corporate profit tax rate will be 15% instead of 10%, and will be applicable as of 2026, based on the companies' performance in 2025. This change will affect only a few companies operating in the country, mainly in the telecommunications, cement production and energy distribution sectors.

<sup>13</sup> In the previous ERP, the projected budget consolidation was based entirely on a revenue increase, while the expenditure ratio was projected to increase, too.

**The ERP expects compliance with the 3% deficit rule from 2027.** Overall, the budget deficit is projected to drop by 0.9 pps to 3% of GDP between 2025 and 2027 (in line with the revised date for implementing the new fiscal rules), and to remain at 3% in 2028. The government deficit projections for 2026 and 2027 are unchanged from the previous ERP, and the projection for 2025 has been marginally lowered (from 4% previously to 3.9% of GDP). With no change in expected interest costs, consolidation would derive entirely from a 0.9 pps improvement in the primary balance. This implies a decline in the primary deficit to almost its pre-pandemic level (0.9%) in 2027, as was also projected in last year's ERP. The projected change in the cyclically adjusted primary balance between 2025 and 2028 points to fiscal tightening in 2026 (0.3 pps) and in 2027 (0.5 pps) and no further change thereafter.

**The ERP projects a reduction in the fiscal deficit in 2026, driven by a significant decrease in expenditure, which would more than offset a drop in the revenue ratio.** The general government revenue ratio is forecast to decrease from 36.9% of GDP in 2025 to 35.7% in 2026, instead of rising to 37.3% as projected in the previous ERP. Tax income, as a percentage of GDP, is projected to drop by 0.2 pps. This would result mainly from a decline, as a share of GDP, in income from indirect taxes and social contributions, revenue from direct taxation is forecast to rise. The government aims to generate additional revenue through ongoing efforts to formalise the informal economy, improve tax compliance by digitalising the Public Revenue Office, and introducing e-invoicing. The expenditure ratio is set to decline from 40.8% of GDP in 2025 to 39.3%, mainly as a result of a decrease, as a share of GDP, in gross capital formation (-0.9 pps y-o-y), subsidies (-0.4 pps), and public consumption (-0.2 pps). Social transfers would remain unchanged at 18.6% of GDP<sup>14</sup>, while compensation of public-sector employees and pensions expenditure would also remain steady at 7.7% and 10.5% of GDP, respectively. The fiscal deficit is projected to be 3.5% of GDP, which is 0.5 pps lower than the outcome in 2025. Overall, the ERP outlines potential sources of additional revenue and savings in certain spending areas but does not specify concrete measures or assess the likely fiscal impacts. It is thus unclear what actions support the projected consolidation of public finances. The projections for wages and pensions, in particular, lack credibility in the context of current fragmented wage-setting policies, increases in the minimum wage<sup>15</sup>, and the recurring practice of ad hoc pensions increases rather than a rules-based indexation system.

#### **BOX 1: THE BUDGET FOR 2026**

North Macedonia's Parliament adopted the 2026 state budget on 10 December 2025. Total revenues for 2026 are set to be MKD 374.9 billion (EUR 6.1 billion), while expenditure is projected to be MKD 414.2 billion (EUR 6.7 billion). The budget deficit is set to be MKD 39.2 billion (EUR 635 million), equivalent to 3.5% of the projected GDP.

Main measures in the budget for 2026

<sup>14</sup> The projections for 2025 in the ERP deviate significantly from the estimated outcome in 2025.

<sup>15</sup> The minimum wage was raised by a cumulative 12% starting in April 2023, with further increases in March 2024 and in March 2025, to reflect the previous year's increase in average net wages and in the cost of living. It currently amounts to MKD 22 567 (about EUR 400) per month. According to the government, a minimum wage rise affects about 11 000 public-sector workers.

Temporary/permanent revenue measures*	Temporary/permanent expenditure measures**
<ul style="list-style-type: none"> <li>• Law on a Minimum Global Corporate Income Tax MKD 1.6 billion (0.1% of GDP)</li> </ul>	<p>Temporary refund of personal income tax to mothers of newborns (no fiscal impact estimate provided in the ERP)</p>
<ul style="list-style-type: none"> <li>• Digitalisation of the Public Revenue Office (no fiscal impact estimate provided in the ERP)</li> </ul>	<p>Temporary subsidies for employers' contributions when hiring mothers (no fiscal impact estimate provided in the ERP)</p>
<ul style="list-style-type: none"> <li>• Introduction of e-invoicing (no fiscal impact estimate provided in the ERP)</li> </ul>	
<ul style="list-style-type: none"> <li>• Formalisation of the informal economy (no fiscal impact estimate provided in the ERP)</li> </ul>	

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\* Estimated impact on general government revenues.

\*\* Estimated impact on general government expenditure.

*Source: ERP 2026*

**Public debt has remained high since the pandemic and is projected to peak in 2027<sup>16</sup>.** At the end of 2025, North Macedonia's public debt level was some 10.1 pps above its 2019 level, amounting to 59.3% of GDP, with general government debt having risen by 11.1 pps to 51.6% over this period. After a substantial jump of some 10 pps in 2020, caused by high financing needs related to fighting the economic impact of the pandemic, North Macedonia's debt levels have remained at an elevated level. The ERP expects public debt to increase further and peak in 2027 (one year later than projected by the previous year's ERP) at 62.1%. Public debt would then decline as of 2028, while remaining above the 60% cap set in the OBL for the entire period covered by the ERP<sup>17</sup>. General government debt is projected to follow a similar trajectory. The expected rise in debt in 2026 and 2027 is realistic, as the government is financing major public

<sup>16</sup> Public debt includes the guaranteed and non-guaranteed debt of public and state-owned companies in addition to the general government debt.

<sup>17</sup> The OBL fiscal rule sets a cap for the debt level (60% of GDP), referring to general government debt in line with the definition in the European System of Accounts (ESA) 2010. In accordance with ESA 2010, the general government sector includes state-owned enterprises (SOEs) if they fulfil certain criteria. North Macedonia has not yet aligned the definition of the general government sector with ESA 2010, yet its definition of public debt, which includes the debt of SOEs, comes close.

road works, partly through the Public Enterprise for State Roads (PESR), and expects disbursements for the implementation of the works to increase, part of which were deferred from 2025.

**The structure of government debt points to moderate risk.** External debt accounted for some 50% of total general government debt (55% of public debt) at the end of 2025, down by some 5 pps from 2024. The declining share is in line with the government's strategy to increase domestic securities issuance. Foreign currency debt made up some 66% of total debt. Some 93% of the foreign currency debt is in euro, which is significantly above the threshold set in the public debt strategy (80%) and above the end-2024 level (91%). Hence, risks stemming from exchange rate depreciation are mitigated by the *de facto* currency peg to the euro. Regarding interest-rate risk, fixed-interest-rate debt as a share of total debt rose from 75.4% in 2024 to 78% in 2025, significantly above the 60% threshold set in the strategy. However, there has been a sizeable rise in the cost of sovereign borrowing in recent years, increasing the government's debt-servicing burden. Interest expenditure rose from 3.3% of total expenditure in 2020 to 5.3% in 2025 (about 2% of GDP). In the ERP, it is projected to remain at about this level until 2028. The government is facing substantial financing needs for 2026-2028, averaging some 9.7% of GDP. These include the repayment of three Eurobonds for a total amount of EUR 1.9 billion<sup>18</sup>. At 10.5% of GDP, financing needs are particularly high in 2026. In January 2025, the government repaid a EUR 700 million Eurobond from 2018, relying partly on two loans of EUR 500 million from the Hungarian state-owned Eximbank in 2024 and early 2025. The remainder of these loans was used to support municipal and private-sector investment.

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<sup>18</sup> A EUR 700 million Eurobond from 2020 needs to be repaid in June 2026, a EUR 500 million Eurobond from 2023 is due for repayment in March 2027, and a EUR 700 million Eurobond from 2021 is due for repayment in March 2028.

## BOX 2: DEBT DYNAMICS

North Macedonia					
Composition of changes in the debt ratio (% of GDP)					
	2024	2025	2026	2027	2028
Gross debt ratio [1]	52.9	52.1	53.3	54.1	53.5
Change in the ratio	3.5	-0.8	1.2	0.8	-0.6
Contributions [2]:					
<b>1. Primary balance</b>	<b>2.7</b>	<b>1.9</b>	<b>1.6</b>	<b>1.0</b>	<b>1.0</b>
<b>2. 'Snowball effect'</b>	<b>-1.2</b>	<b>-1.8</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-1.3</b>
<i>Of which:</i>					
Interest expenditure	1.9	2.0	1.9	2.0	2.0
Growth effect	-1.4	-1.7	-1.9	-2.0	-2.1
Inflation effect	-1.7	-2.1	-1.3	-1.2	-1.2
<b>3. Stock-flow adjustment</b>	<b>2.1</b>	<b>-1.0</b>	<b>0.8</b>	<b>0.9</b>	<b>-0.3</b>

[1] End of period.

[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).

The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

*Source: Economic Reform Programme (ERP) 2026, Commission calculations.*

**The ERP projects that general government debt will remain above 50% of GDP during the ERP's lifespan.** Following an annual reduction in 2025, the debt ratio is forecast to rise again. The primary deficit is set to decline by 0.9 pps between 2025 and 2028 and therefore diminish gradually as a debt-increasing factor. The improvement in the primary balance is consistent with the projection in last year's ERP. Reflecting expectations of moderating price pressures, the debt-decreasing impact of inflation is projected to peak in

2025 and to diminish significantly in 2026 and slightly further thereafter, while the effect from real growth is forecast to increase and to become the main debt-reducing factor. Interest payments are expected to have a stronger debt-driving impact, with interest expenditure expected to remain at about 2% of GDP over the ERP timeline. Stock-flow effects would have a debt-increasing impact in 2026 and 2027, possibly partly reflecting the expected net inflows into government deposits at the central bank. Projections for 2025 and 2026 are somewhat below those in last year's ERP, which for 2027 expected the debt ratio to remain at about the same level as in 2025, i.e. lower than this year's ERP.

**Fiscal consolidation plans lack detail and credibility and face substantial risks.** Sustained fiscal stimulus since the pandemic has kept the deficit above pre-pandemic levels and has eroded fiscal space at a time of rising vulnerabilities. The need to rebuild fiscal buffers is thus urgent and challenges that could derail the government's consolidation plans need to be addressed. *First*, while the ERP projects an overall decline in the revenue ratio, it expects nominal revenue growth from further digitalisation of the Public Revenue Office and e-invoicing, without providing fiscal impact estimates. It also anticipates increased revenue from formalising informal jobs, with some estimates of additional income related to Reform Agenda measures, yet these seem over-optimistic, expecting a 40% reduction in informal employment by 2027 compared to 2023. Without concrete enforcement measures, these plans to close the fiscal gap are unconvincing. *Second*, there are no concrete policy measures underpinning the projected decrease in the expenditure ratio, which seems to stem largely from a drop in capital expenditure. Risks surrounding planned capital expenditure remain high due to past severe under-implementation caused by administrative or execution issues from still-weak investment management. However, the government aims to improve this by applying new procedures outlined in the April 2025 PIM Decree. *Third*, there is uncertainty surrounding the scale and fiscal impact of mandatory indexation of minimum wages, which increases average wages (and therefore also public-sector wages), and the indexation of pensions, as they depend on both price and nominal wage developments. Previously, unexpected statutory spending obligations were covered by reallocating unspent budgeted capital expenditure mid-year, reducing funds for capital projects. *Fourth*, public expenditure risks arise from government guarantees. Despite limited accountability

and transparency of state-owned enterprises (SOEs), government guarantees for SOE debt remain high, currently around 7% of GDP, with about 63% allocated for road infrastructure works by the PESR. *Fifth*, arrears, mainly stemming from health funds, SOEs and municipalities, have increased in recent years, averaging about 4% of GDP in 2025. The budget includes grants to municipalities for performing tasks transferred to them and implementing capital projects, but centralised and timely monitoring of municipal spending is lacking. *Sixth*, fiscal risks from public-private-partnership (PPP) contracts are expected to be addressed in a new draft law, not yet adopted by the government. A fiscal risk register is due to be set up, in line with Reform Agenda commitments, by December 2027, to cover fiscal risks related to macroeconomic and fiscal projections SOEs and PPPs. This register would support fiscal risk assessment to be included in the 2028-2032 fiscal strategy, although preparations are sluggish.

### **BOX 3: SENSITIVITY ANALYSIS**

The ERP includes a sensitivity analysis of the fiscal deficit, based on three parameters, in line with the alternative macroeconomic scenarios. The first parameter is GDP growth. If average annual real GDP growth is lower than projected, by 1 pp. on average over 2026-2030, the budget deficit would increase by an average of 0.7 pps per year compared with the baseline projections. The second parameter is capital expenditure. Lower capital expenditure (about 75% execution compared with the baseline) would mean an annual reduction in GDP growth of 0.5 pps and an average annual increase in the deficit of 0.4 pps, mainly on account of the negative impact on tax revenue. The third parameter is tax collection. If tax collection falls by 5% per year, this would increase the budget deficit to 4% on average for 2026-2030 (compared with 4.3% in the same risk scenario set out in last year's ERP for 2025-2029).

The ERP also assesses the exposure of the debt portfolio to interest and exchange rate risk, demonstrating a high sensitivity to a change in interest rates (if interest rates were to rise in 2026 by 1 pp. more than assumed in the baseline scenario, the debt-servicing cost would surge by 6.1% in 2026). Yet, according to these calculations, the interest rate sensitivity of the portfolio has declined compared to the results in last year's ERP (previous ERP's calculation for 2025: 7.6%), compared to the baseline scenario, with the impact remaining similar until 2030. On the other hand, given the large share of euro-denominated debt in the government's external debt portfolio, the impact on debt-servicing costs of a 10% depreciation of the euro with respect to other currencies in the portfolio would be quite small (+0.8% in 2026, compared to ERP 2025: 1.9% in 2025). The impact on debt developments in 2026 stemming from a deterioration in these two parameters is thus projected to be less pronounced than projected in last year's ERP for 2025.

### **The ERP provides long-term projections for pension and healthcare expenditure up to 2060.**

Both are projected to peak in 2030, at 12.2% and 7.0% of GDP respectively, and to decline thereafter. These projections are based on a set of assumptions, including a marked increase in labour productivity between 2030 and 2040, as well as a substantial decline in male labour-market participation, possibly due to emigration, and a rise in female participation, which may arise from additional measures to incentivise women to enter the workforce, between 2030 and 2060.

### **Restructuring public revenue and expenditure could help make income more predictable and stable and offer increased fiscal space.**

Public revenue relies heavily on income from indirect taxes. VAT and excise duties make up about 40% of total revenue - a much higher share

than the average for OECD countries. The share of personal and corporate income tax revenue increased only marginally in recent years, mainly in response to the 2023 tax policy reforms, which broadened the tax base for direct taxation (and also for VAT). While considered more conducive to economic growth than taxes on labour and capital income, VAT is also a more volatile source of revenue and has a lower tax efficiency in North Macedonia than direct taxes<sup>19</sup>. By rigorously reducing tax expenditure and exploring potential new tax sources (property, environmental taxes), public finances could benefit from more stable and wide-ranging revenue sources. On the expenditure side, rigid mandatory expenditure resulting from the public wage bill, goods and services and social transfers has been rising gradually in recent years as a share of total expenditure, up from 60.4% in 2022 to 69.6% in 2025, limiting fiscal space for other priority growth-enhancing capital investment. Pensions accounted for 32.5% of total spending in 2025, or 11.8% of GDP, up from 4.5% in 2012. These statutory payments restrict fiscal space for more productive expenditure and for crisis buffers. Another increasingly important factor hampering the building of fiscal buffers is the rising share of interest expenditure due to an increase in the debt burden that is driven by high primary deficits. The ERP projects that capital expenditure will increase as a share of total expenditure, rising from 10% in 2026 to 15% by 2028, which is above the long-term average of 10.4% for 2014-2024 and up from 7.5% in 2025.

**The full implementation of the OBL has been postponed to 2028.** The 2022 OBL provisions are focused on strengthening the medium-term budget framework. The OBL also calls for better monitoring and presentation of fiscal risks in the public sector, by attributing a key role in this process to the new Fiscal Council, and by mandating a description of fiscal risks as part of the mid-term fiscal strategy. Moreover, it requires the government to regularly draft a tax expenditure report as a basis for revenue-enhancing tax policy measures. The government adopted 17 of the more than 30 by-laws required under Reform Agenda obligations in December 2025. The implementation of many of these by-laws hinges, however, on the operation of an integrated financial management system. As provided for in the OBL, a Fiscal Council was set up in 2024 to assess the government's macro-fiscal scenario and policies. However, its work is hampered by a lack of staff and financial resources.

**The implementation of public investment management reforms is ongoing.** The government has started to implement the new PIM Decree, adopted in April 2025, which contains standardised procedures for selecting, preparing, reviewing, assessing and prioritising new public investment projects, as well as guidance for the implementation, monitoring and reporting processes and *ex post* review. The Ministry of Finance drafted, and published on its website in July 2025, a guide for budget users on preparing feasibility studies for projects and a manual guiding the public investment management process. In September 2025, the government set up a Public Investment Committee to ensure efficient management of public investment projects. Under the Reform Agenda, a Single Project Pipeline needs to be put in place and made operational by December 2027 for all capital projects, as provided for in the PIM Decree, regardless of the sources of funding. Yet, staffing and capacity in the Department for Public Investment Management remain insufficient.

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<sup>19</sup> See World Bank, Public Finance Review North Macedonia, December 2024. The 'c-efficiency ratio' for VAT measures how effectively a country collects VAT by comparing actual revenue to the theoretical maximum. A lower ratio can reflect compliance issues or erosion via exemptions and reduced rates.

#### 4. ADDRESSING STRUCTURAL CHALLENGES – THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK

**The Reform Agenda is a key instrument meant to address structural challenges to foster a faster convergence of the economy of North Macedonia towards EU levels.** The Reform Agenda was agreed between North Macedonia and the Commission in October 2024. Under the Reform Agenda, North Macedonia has undertaken to implement, from 2024 to 2027, reforms in the areas of public administration, energy, digitalisation, human capital, the business environment and fundamental rights<sup>20</sup>. As of March 2026, the Commission has released EUR 76.4 million for North Macedonia, of which EUR 52.5 million was provided in the form of pre-financing. In March and July 2025, North Macedonia submitted its first and second payment requests. In July and October 2025, the Commission adopted decisions approving the first and second releases of funds to North Macedonia, having assessed that, overall, 6 out of 21 steps had been completed. In February 2026, North Macedonia submitted its third payment request, which, as of March 2026, was still being assessed by the Commission.

**Productivity growth is restrained by structural impediments in the economy.** The economy underwent a gradual process of catching up with EU living standards prior to the financial crisis, but the pace of convergence has slowed down in the past decade. Even though the share of higher value-added sectors in the economy, in particular in export production, has increased in recent years, sectors with low value added, in particular in services, still make up a large part of the industrial structure. To boost those sectors of the economy that need higher-skilled workers and to accelerate productivity increases a number of structural challenges need to be addressed, such as the skills mismatch in the labour market, the large informal economy, low innovation activity, reflecting the still limited development of business–academia collaboration and technology-transfer mechanisms, as well as substantial infrastructure investment needs.

**Companies face distortions of competition from the high level of informal activity and from an untransparent State aid system.** After a steady decline in the past decade, the share of informal workers in total employment is estimated by the State Statistical Office to have increased again in the past two years, rising to some 14%. According to International Monetary Fund (IMF) estimates, in terms of GDP, the informal economy in North Macedonia could account for as much as 38%<sup>21</sup>. The implementation of the 2023–2027 strategy for formalisation of the informal economy, adopted in September 2023, has stalled.<sup>22</sup> This adds to competitive distortions resulting from deficiencies in the country's State aid system. The provision of State aid continues to suffer owing to a multitude of providers and a lack of transparency, which distort the level playing field for companies.

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<sup>20</sup> <https://eur-lex.europa.eu/eli/reg/2024/1449/oj/eng>. Under the Reform and Growth Facility, North Macedonia is entitled to an allocation of EUR 750.4 million, with EUR 215.3 million planned in the form of grants and EUR 535 million in concessional loans. Of the total amount of support, EUR 349.1 million is to be allocated in the form of budget support, with the remaining EUR 401.3 million allocated for the financing of infrastructure projects and implemented through the Western Balkan Investment Framework.

<sup>21</sup> International Monetary Fund, Kelmanson, Kirabaeva, Medina, Mircheva and Weiss, 'Explaining the shadow economy in Europe: size, causes and policy options,' Working Paper No 19/278, 2019. The IMF figure is at the upper range of estimates.

<sup>22</sup> It needs to be noted, however, that there is initial progress in formalisation, such as an increase in the enforcement capacity of the labour and market inspectorates, and the adoption of the 2025 Law on Labour Engagement of Persons, which introduces a simplified registration procedure for seasonal workers,

**The competitiveness of domestic companies is hampered by low digitalisation and low innovation activity.** A fixed broadband connection to the internet is used by 88% of households, and by 92% of businesses with 10 or more employees, but smaller companies still face obstacles. More effort needs to be made to improve digital skills, including by: (i) setting up a national framework for digital skills for students and teachers; (ii) increasing the use of IT tools in primary and secondary schools; and (iii) expanding access to high-speed internet to small business and to non-urban areas. Digital government is quite underdeveloped, as most e-services are rarely used and only a fraction are fully transactional. There are also major deficiencies to be addressed in the security of digital infrastructure and of government services. R&D activity in the economy remains muted, partly as R&D funding, at 0.4% of GDP, remains low and significantly below the EU average (about 2.3% of GDP), with the government providing almost half of the funding, and the business sector adding another 25% (the rest is funded by higher education and foreign sources). Links between businesses and others involved in innovation are weak.

**Structural challenges in the labour market hold back economic growth and fuel wage growth.** While headline indicators in the labour market have seen steady improvement, long-term features, such as: (i) low participation rates (around 53%), in particular for women (around 42%); (ii) high outflows from the labour force due to emigration; (iii) high youth unemployment; and (iv) the skills mismatch, are increasingly impacting macroeconomic and wage developments as well as heightening fiscal risks through their impact on public-sector wages and pensions. The proportion of people with higher education has been rising in North Macedonia over the past decade, but education curricula need to be adapted to better suit labour demand. Public spending on education, at 4.2% of GDP in 2024, remains below the EU average. It is focused on wages and goods and services, rather than maintenance of and investment in infrastructure. The further development of qualifications is key to bringing medium-skilled and low-skilled people into the labour market.

**The transition to renewable energy sources and improvements in energy efficiency require major investment.** While North Macedonia's capacity to produce energy from renewable sources has been significantly expanded in recent years, the economy continues to rely heavily on coal-fired electricity production. Renewable energy accounted for 41% of electricity production in 2024, but its overall share of energy consumption is much lower, and particularly so in the transport sector. North Macedonia adopted its national energy and climate plan in 2022. The plan aims to increase the share of renewable energy sources in gross domestic energy consumption to 38% by 2030. The shift towards renewable energy sources, as well as improvements in energy efficiency, to meet targets for greenhouse gas reduction set under the European Green Deal, will require significant investment. The timely introduction of a carbon tax could contribute to meeting the emissions targets and to preparing for the full implementation of the carbon border adjustment mechanism.

**In its 2026 ERP, North Macedonia provides some limited economic and fiscal impact assessment of key measures from the Reform Agenda.** The number of measures assessed and the remit of the respective policy areas has been increased compared with last year's ERP. Measures relate to the policy areas of public financial management, education, energy and the digital transition. The analysis contains (partly) model-based estimates on the impact of some reforms concerning employment and economic growth, while a projection of the fiscal impact of most reforms is missing. Some measures have been taken up from last year's ERP and its impact assessment has been developed further. Overall, the ERP projects the selected reforms would lead to a rise in GDP growth of between 2.6 and 3.3 pps in the medium term, compared to the baseline scenario, but it does not give a breakdown of this growth impact based on individual measures or GDP components. Regarding the fiscal impact, there is no information for most measures.

Furthermore, the ERP does not stipulate to what extent payments under the Reform Agenda are included in its revenue forecast. The ERP could also be more specific about the projected cost linked to the implementation of the measures, and whether this is included in the budget expenditure projections.

**As a new policy area not included in last year's ERP, the government assesses measures relating to public administration reform and public financial management.** The first measure seeks to increase the use of the 'most economically advantageous tender' (MEAT) criterion based on the best price-quality ratio or the most cost-effective approach in public procurement tenders. This is meant to make the public procurement process more transparent and efficient. Projections provided in the ERP for 2024-2027 indicate that these contracts will double their share of the total value of procurement contracts, rising from around MKD 10 billion in 2024 to over MKD 20.8 billion in 2027. Together with the already completed reform step of improving public investment management through the adoption of a new Decree (April 2025), the government expects this measure to raise the implementation rate of public investment from an average of 73.2% in 2017-2024 to 89.4% in 2026-2028. While the measures are well-targeted to address shortcomings in public investment management and public procurement, the ERP does not provide an estimate of the economic or fiscal impact.

**The measure involving the implementation of the Renewable Energy Directive has been taken up from last year's ERP.** Analysis of this measure has been developed further to cover additional aspects of the economic impact. In particular, the government estimates that, in order to achieve the agreed target of adding 0.8 GW of new renewable capacity by June 2027, it would take an additional investment of EUR 400 million compared to the baseline for 2024-2027. This would lead to a cumulative increase of 0.7 pps in investment, compared to the baseline scenario, but also an increase of 0.2 pps in imports, leading to a substantial boost to GDP growth (+1.3 pps). The growth effect could have been more detailed by referring to individual years in this period.

**Another measure centres on reducing the informal economy by 40% by 2027.** This is estimated to lead to over EUR 80 million in annual budget revenue, of which EUR 11 million is personal income tax. Including this measure in the ERP is of relevance, since the formalisation of the informal economy is a cornerstone of the government's policy for enhancing public revenue. A 40% reduction over a four-year period seems ambitious, in particular as implementation of measures from the strategy has stalled and labour inspections are not carried out in a systematic way. The ERP could have explained in more detail what measures the government plans to use to reduce the informal economy by such a large degree and from where the additional budget revenue derives. The reform presented for the *education* sector, repeated from last year, projects a small contribution to GDP growth over the period in question, via strengthened employment and private consumption. The description would have benefited from an estimate of the fiscal cost of this measure.

**Furthermore, the ERP takes up last year's analysis of the measure to expand government e-services by 50% by 2027 through further digitalisation.** This would boost productivity because users would save an average of two hours per e-service. The measure has been repeated from last year's ERP, but omits last year's assessment of the economic impact on GDP. Preferably, the ERP could have further developed and refined this analysis.

## ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED IN MAY 2025

Every year since 2015, the Economic and Financial Dialogue between the EU and regional partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and Regional Partners at ministerial level on 13 May 2025.

Overall: limited implementation (30.6%) <sup>23</sup>	
2025 policy guidance (PG)	Summary assessment
<p><b>PG 1:</b></p> <p>Implement prudent fiscal policy by adopting concrete consolidation measures, by controlling wage and pensions spending to ensure that their share of GDP does not exceed 2024 levels, and by saving unused allocations from capital expenditure to bring down the deficit and create fiscal space.</p> <p>Strengthen revenue collection by developing proposals for further reductions in tax expenditure; and by enhancing the</p>	<p>There was <b>limited implementation</b> of PG 1.</p> <p>1) <b>Limited implementation:</b> The government pursued fiscal consolidation and managed to narrow the deficit by 0.5 pps to 4% of GDP. This was achieved mainly through a mid-year reallocation of capital expenditure to fund additional spending pressure from the public-sector wage bill and from pensions, both due to previously unbudgeted ad hoc increases. Planned capital expenditure was cut by 6.6%, and current expenditure was raised by 3%. In 2025, pensions as a share of GDP rose by 0.9 pps y-o-y to 11.8%. The share of public-sector wages remained broadly stable at 4.6% of GDP for the central government, and at 7.5% for the general government.</p> <p>Overall, against the background of heightened uncertainty in the external environment, fiscal policy reduced policy space through substantial ad hoc increases of public sector wages and pensions.</p> <p>2) <b>Limited implementation:</b> The government is in the process of drafting a tax expenditure report, as</p>

<sup>23</sup> For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes. This is available at [2017 Economic Reform Programmes of Albania, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo\\* - Economy and Finance](#)

<p>operational capacities of the tax administration.</p> <p>Make the pension system more sustainable by moving back to a regular rules-based indexation instead of ad hoc pension increases and by developing proposals for parametric reforms.</p>	<p>required by the Organic Budget Law. Currently, the fiscal strategy provides estimates of tax expenditures by tax category. The authorities claim that preliminary results show a declining trend in the amount of tax expenditures (from 4.8% of GDP in 2021 to 4.2% in 2025). However, the figures provided in the ERP rather project a slight increase over the programme's horizon. The Law on tax procedures was amended to rationalize procedures, strengthen the collection and management of public revenues, prevent abuses and create a stable and efficient tax system. The Public Revenue Office (PRO) still has to improve its business processes, develop compliance risk management and continue the process of expansion of e-services. A reform management office was established to support the reform agenda of the PRO. The IT function has been reorganised by establishing an IT sector at a central level, however, its capacity is still insufficient. The subsequent recommendations from the EC Country reports 2020-2025 to implement a new integrated IT tax system, aiming to replace the current fragmented IT system, were not met. The PRO plans to have the new system in place by 2028, however, progress was slow.</p> <p>3) <b>Limited implementation:</b> Pensions have been raised in a linear way since March 2024, with fiscal costs above those that would have resulted from indexation. A 2025 amendment to the Pensions Law requires the government to return to indexation (50% average wage growth, 50% inflation) rather than linear increases, as of September 2026. Thus, the upcoming (March) increase is likely to be linear again. The government is not planning further (parametric) reforms of the pension system.</p>
<p><b>PG 2:</b></p> <p>Ensure timely implementation of the new Organic Budget Law (OBL) in its entirety by January 2026 by adopting the remaining by-laws, and by ensuring that the Fiscal Council is fully staffed.</p>	<p>There was <b>limited implementation</b> of PG 2:</p> <p><b>1) Limited implementation:</b> The entry into force of the OBL has been postponed to January 2028. There was some progress in the adoption of the OBL by-laws, including the revised budget classifications. The Government has adopted 19 by-laws for implementation of the OBL. 17 of these bylaws were adopted under the Reform Agenda with a one-year delay in December 2025, and they will only enter into force in January 2028. This however depends on the establishment of an integrated financial management system (IFMIS).</p>

<p>To enhance private financing of public infrastructure projects based on a suitable regulatory framework, adopt the Law on Public Private Partnership (PPP).</p> <p>Set up an integrated financial management information system, among others for monitoring and controlling fiscal risks, including those emanating from public infrastructure projects, arrears and guaranteed loans to state-owned enterprises.</p>	<p>The lack of progress in installing such a system hampers actual implementation of a number of by-laws as regards for example the digitalisation of the PIM system, the management of arrears, and the review of budget classification. The Fiscal Council, which per OBL Art. 11(19) is required to have a professional service of four analysts and two administrative employees, still has only 1 ½ of these posts filled. Its selection of a Head of Secretariat was not approved by the Finance Ministry.</p> <p>2) <b>No implementation:</b> The draft Law on PPP has not yet been adopted by the government, which cites slow interinstitutional coordination as the reason. The new Ministry of Energy and Resources has taken over the coordination of this Law from the Ministry of Economy. According to the government, an opinion from the General Secretariat is needed, after which the draft would be resubmitted to the government for adoption.</p> <p>3) <b>No implementation:</b> There has been no progress in the implementation of IFMIS. A new tender still needs to be launched.</p>
<p><b>PG 3:</b></p> <p>Continue to calibrate monetary policy appropriately to sustainably achieve price stability and safeguard the currency peg.</p> <p>Safeguard the financial independence of the central bank, including by amending profit retention rules to allow for the accumulation of sufficient reserves as coverage for monetary liabilities, and ensure that all relevant legislation safeguards the central bank's operational independence, including</p>	<p>There was <b>partial implementation</b> of PG 3:</p> <p>1) <b>Full implementation.</b> The central bank has pursued a prudent monetary policy stance throughout 2025, against the background of a stalling disinflation process. It has tightened macroprudential measures, while keeping the policy rate unchanged. The introduction of a new operational framework in December 2025 did not imply an easing of the policy stance but aims to improve policy transmission and increase transparency, The central bank also sought to absorb excess liquidity in the banking sector and incentivise long-term saving in local currency by adjusting reserve requirements for banks.</p> <p>2) <b>Partial implementation.</b> The Commission's recommendation to ensure the independence of the NBRNM with respect to the status of its employees has been successfully implemented. The Law on administrative servants explicitly exempts the NBRNM, while the Law on public-sector</p>

<p>the setting of employment conditions.</p> <p>Further strengthen the regulatory framework by adopting the new Law on deposit insurance and by making the Bank Resolution Fund operational.</p>	<p>employees implicitly excludes it by omitting the NBRNM from the definition of public-sector institutions. However, the new mechanism adopted in January 2025 for distributing the central bank's profits remains in force, with most of the profits distributed to the government.</p> <p>3) <b>Limited implementation.</b> The entry into force of the 2023 Bank Resolution Law, which sets up a Bank Resolution Fund and introduces guidelines for the process of bank resolution, with the central bank as the responsible body, has been deferred from October 2025 to July 2026, as the preparatory work for full application of the Law has not been completed. Setting up the institution that would manage the Bank Resolution Fund as well as the Deposit Insurance Fund hinges on the government's adoption of the Deposit Insurance Law, which is lagging behind. An interinstitutional working group has been set up to draft the required amendments to the Deposit Insurance Law so as to set up an institution that would manage both funds, with the aim of making the Bank Resolution Fund operational by the time the Bank Resolution Law enters into force.</p>
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