

NORTH MACEDONIA

Table 1 **2023**

Population, million	1.8
GDP, current US\$ billion	14.8
GDP per capita, current US\$	8146.5
Upper middle-income poverty rate (\$6.85) ^a	19.0
Gini index ^a	33.5
School enrollment, primary (% gross) ^b	91.4
Life expectancy at birth, years ^b	74.4
Total GHG emissions (mtCO2e)	9.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2019), 2017 PPPs.

b/ Most recent WDI value (2022).

Real growth remained constrained in H1 2024 amidst lingering inflationary pressures, weak external demand, and delayed highway construction. Fiscal consolidation targets are likely to be missed for 2024 following election promises. The fiscal deficit and public debt remain elevated over the medium term with higher mandatory spending and build-up of fiscal risks related to arrears, pensions, and spending pressures ahead of local elections. The growth outlook is positive, but downside risks prevail.

Key conditions and challenges

North Macedonia is struggling to recover after crises. Real GDP growth has remained muted in 2024, after mere 1 percent in 2023, reflecting delays in the take-off of highway construction works, weaker external demand, and lingering price pressures. Poverty reduction, having stalled in 2023, is estimated to have resumed in 2024 due to rising wages and employment growth vis-à-vis 2023.

Fiscal challenges remain persistent. While some reforms have been made to boost domestic revenues, spending efficiency remains low, and fiscal discipline weak. The fiscal deficit remains at around 5 percent post-pandemic, pushing the debt-to-GDP ratio close to 62 percent of GDP. Both the fiscal deficit and public debt remain above the newly introduced fiscal rules, further challenged by pre-election spending commitments related to pensions, public sector wages, and transfers to municipalities.

Monetary tightening has helped contain the surge in prices but persistent inflationary pressures risk prolonging the tightening cycle and further dampening economic activity. Rising wages and pensions risk keeping inflation higher for longer and cause a slower return to the long-term average.

Crisis-induced scars to the economy have significantly slowed potential growth and income convergence with the European Union (EU). The country's rebound after

the pandemic has not kept pace with that of its peers. Ensuring sustainability, rising productivity, and undertaking necessary labor and regulatory structural reforms are essential for EU accession to progress and to enable sustainable growth.

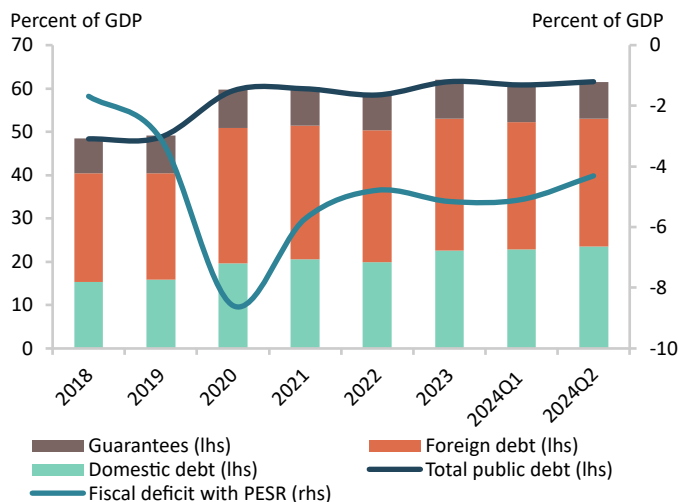
Recent developments

Output growth averaged 1.8 percent in H1 2024 with strong domestic demand while exports and imports dropped. Services led growth, while construction picked up and agriculture had a negative contribution.

Relative to end-2023, labor market indicators in Q2 2024 improved slightly, with the employment rate rising by a notch to 45.6 percent, while the participation rate remained almost unchanged at 52.1 percent. The unemployment rate dropped slightly to 12.5 percent, and the youth unemployment rate (15-24) remained high at 26.9 percent. Nominal net wage growth, driven by public sector and minimum wage increases, spiraled up to 14.8 percent in June 2024, outpacing inflation by close to 12 pp. While headline inflation eased from double-digit growth in 2022 to 3 percent in July 2024, core inflation remains high—at above 5 percent, led by wage pressures and services. At the same time, the Central Bank initiated the first policy rate cut of 25 basis points to 6.05 percent in September 2024.

The fiscal deficit (with the state roads finances included) is projected to reach 5.1 percent of GDP in 2024 after a July budget revision that increased spending on wages, pensions and transfers,

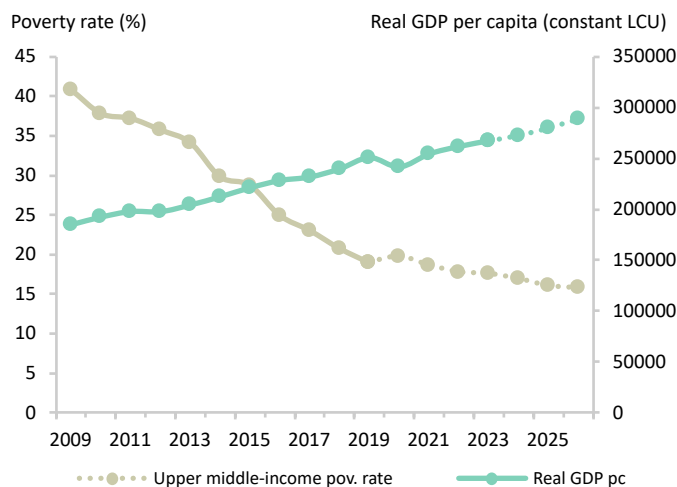
FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance, and World Bank staff calculations.

Note: Fiscal deficit with PESR included.

FIGURE 2 North Macedonia / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

and lowered capital spending. Public debt went up to 61.5 percent of GDP in Q2 2024, mostly on account of higher issuance of domestic securities. Expenditure arrears have surged to 4.7 percent of GDP in Q2 2024 on account of poor fiscal discipline of local utility companies, public health institutions, and state-owned enterprises.

Banking sector stability has been maintained in line with an increase in the capital adequacy ratio to 18.9 percent in Q1 2024, while the liquidity rate (without government securities) settled around 20 percent. At the same time, the NPL ratio went above 3 percent for the first time since 2022, but solely as a result of methodological changes.

The CAB returned to negative territory at 1.2 percent of GDP in H1 2024 owing to a worsening of the goods trade balance, while services exports held up and remittances eased. External debt slightly

declined to 81.8 percent of GDP in Q1 2024, but roughly half of the total is private and mostly intercompany lending.

Outlook

The medium-term outlook remains positive, but risks are tilted strongly to the downside. Growth is expected to step up in the medium term to an average of 2.7 percent during 2025-2026. This projection assumes a rebound of public investments and a gradual recovery of consumption and exports.

Headline inflation is projected to remain above or close to 3 percent in 2024-25, but to slow thereafter to a long-term average of 2 percent. Poverty rates are projected to maintain a slow declining pathway, helped by real wage and employment

growth, falling by a further 1.2 percentage points over the forecast period.

The baseline scenario is built on the assumption that the focus on the EU accession agenda remains a priority for the new administration that won the general elections in May 2024. At the same time, low productivity, inefficient capital deployment, and weak external demand, compounded by limited fiscal space and rising fiscal risks amidst high interest rates, continue to impede growth prospects and further slow the pace of income convergence with EU peers. Additional delays of decarbonization targets, along with carbon pricing, risk a loss in domestic public revenues and international competitiveness given the start of the EU Carbon Border Adjustment Mechanism. In this context, following up on the Growth Plan pledges is critical to carve out a growth-conducive economic environment.

TABLE 2 North Macedonia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.5	2.2	1.0	1.8	2.5	3.0
Private consumption	8.8	3.8	2.4	1.2	1.4	2.6
Government consumption	0.9	-5.0	-0.6	8.4	1.8	0.5
Gross fixed capital investment	-0.7	3.4	-4.5	5.1	5.1	5.2
Exports, goods and services	14.3	11.4	-0.1	3.0	5.2	5.6
Imports, goods and services	14.8	12.4	-5.8	3.2	4.0	4.6
Real GDP growth, at constant factor prices	4.0	2.4	1.0	1.8	2.5	3.0
Agriculture	-8.7	-5.0	-3.8	1.2	1.1	1.1
Industry	-2.0	-1.9	-2.4	1.6	1.4	1.4
Services	7.7	4.6	2.5	2.0	3.0	3.6
Inflation (consumer price index)	3.2	14.2	9.4	3.5	2.8	2.0
Current account balance (% of GDP)	-2.8	-6.1	0.7	-1.8	-2.0	-2.0
Net foreign direct investment inflow (% of GDP)	3.3	5.0	3.8	3.7	3.5	3.4
Fiscal balance (% of GDP)	-5.3	-4.5	-4.7	-4.9	-4.0	-3.7
Fiscal balance with the state roads (% of GDP)	-5.7	-4.8	-4.9	-5.1	-4.3	-3.9
Revenues (% of GDP)	32.1	32.1	34.9	37.3	37.1	37.1
Debt (% of GDP)	60.3	59.0	62.0	63.5	63.1	62.8
Primary balance (% of GDP)	-4.1	-3.4	-3.1	-2.9	-2.0	-1.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	18.7	17.8	17.6	16.9	16.1	15.8
GHG emissions growth (mtCO₂e)	-1.1	-2.0	0.5	0.0	0.6	0.9
Energy related GHG emissions (% of total)	71.8	71.7	71.7	71.4	71.3	71.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2020-SILC-C. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2019) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.