



On the Fiscal Strategy of the Republic of North Macedonia for 2027–2031
1. June 2026.

The Assembly of the Republic of North Macedonia adopted the [Fiscal Strategy 2027-2031](#), submitted by the Ministry of Finance. In this FT Comment, we present an analysis and commentary on the projections, expectations and configuration of fiscal indicators.

SUMMARY OF CRITICAL FINDINGS

The following table provides a summary of the critical findings, the analysis and commentary of which follows below in this document.

Dimension	Assessment	Key Finding
Fiscal consolidation	WEAK	Delayed for the third consecutive year; budget deficit does not decrease in 2027 either
Interest burden	CRITICAL	Doubles by 2031; squeezes development space
Development component	UNDER PRESSURE	Capital expenditures revised downward vs. previous FS from 2027
Hidden fiscal risks	SIGNIFICANT	Public enterprises, liabilities, guarantees, legal disputes
Transparency	PARTIAL	Indicators exist, but without mechanisms and timelines

I. FISCAL CONSOLIDATION – SYSTEMATIC POSTPONEMENT

The deficit path: a third cycle of slippage

A comparison of successive Fiscal Strategies reveals a systemic tendency to **delay fiscal objectives**. The target of a deficit below 3% – established by the Budget Law and aligned with the Maastricht criteria – has now been pushed back for the third consecutive time: from 2027 to 2028 (Table 1). Each postponement is not a neutral technical act – it means more interest costs, less fiscal space, and greater exposure to risk from new shocks. **When the exception becomes the rule, it loses credibility**. Without an automatic corrective mechanism, the fiscal rule is de facto suspended.

Table 1 – Projected budget deficit

Document	2026	2027	2028	2029	2030
FS 2025–2029	–	3,0%	2,8%	2,8%	–
FS 2026–2030	3,5%	3,0%	3,0%	2,8%	2,8%
Rev. FS 2026–2030	3,5%	3,0%	3,0%	2,8%	2,8%
FS 2027–2031	3,5%	3,5%	3,0%	2,8%	2,8%

Source: Fiscal Strategies.

The primary deficit: deteriorating, independently of any external shock

The Fiscal Strategy 2027–2031 shows a structural deterioration of the primary deficit (the deficit excluding interest expenditures), which is the most precise indicator of fiscal condition independent of interest costs. The primary deficit for 2027 has widened by 0.5 percentage points compared to

previous projections, indicating an internal imbalance between revenues and expenditures – not a result of interest pressures from past borrowing (Table 2). This negative trend, which is insufficiently highlighted in the document, jeopardises long-term fiscal sustainability.

Table 2 – Projected primary budget deficit

Документ	2027	2028	2029	2030
Rev. FS 2026–2030	1,0%	1,0%	0,7%	0,7%
FS 2027–2031	1,5%	1,0%	0,6%	0,6%
Difference (p.p)	▲ -0,5	0	0,1	0,1

Source: Fiscal Strategies and own calculations.

II. THE INTEREST BURDEN – A SILENT FISCAL CRISIS

Interest expenditures are the one budget item that admits no political discretion – they are paid by contract. Their dynamics in the Fiscal Strategy are alarming: **from 17.8 billion denars in 2024, interest payments grow to 34.1 billion in 2031 – an increase of 91% over eight years, or double the level from roughly a decade ago** (Table 3). In 2025 they already equalled 70% of total capital expenditures, and while projections for 2031 present a more favourable picture (36%), that picture rests on the assumption of a threefold jump in capital investment – a scenario that has historically never been realised, given that capital expenditure execution in 2024 and

2025 was only approximately 60% of the original plan (Table 4).

Table 3 – Interest expenditure dynamics 2024–2031

Year	Interest (bn MKD)	% of expenditures	% of GDP
2024	17,8	5,1%	1,8%
2025	19,9	5,3%	1,9%
2026	21,3	5,1%	1,9%
2027	24,4	5,5%	2,0%
2028	25,9	5,6%	2,0%
2029	29,9	6,1%	2,2%
2030	33,0	6,3%	2,3%
2031	34,1	6,1%	2,2%

Source: Fiscal Strategies and own calculations.

Under the golden rule, the borrowing interest rate (r) should remain below the nominal GDP growth rate (g). **If $r > g$, debt grows heavier over time.** In the baseline scenario, the golden rule test ($r < g$) is satisfied for now, but margins are narrow: with the interest rate on new debt at approximately 4.7% and nominal growth converging towards 6% as inflation stabilises, any slowdown in growth or rise in interest rates would push this relationship into a risk zone.

The fundamental problem is not any given number at a given moment – it is structural: interest payments rise automatically and inevitably, while all other budget items must adjust within the space that remains. **This is the silent fiscal crisis that is gradually narrowing every room to respond to new shocks and development needs.**

Table 4 – Interest squeezing the development budget

Year	Interest (bn MKD)	Capital exp. (bn MKD)	Interest/Capital exp.
2024	17,8	28,7	62%
2025	19,9	28,5	70%
2027	24,4	43,6	56%
2029	29,9	56,8	53%
2031	34,1	95,9	36%

Source: Fiscal Strategies and own calculations.

Note: The 36% ratio in 2031 looks optimistic, but is based on a threefold jump in capital expenditures. At a historical execution rate of ~60%, the real ratio would exceed 55%. In 2025, execution was only 60.1% of the plan.

III. THE DEVELOPMENT COMPONENT – REALITY IN THE NUMBERS

The development component of the Fiscal Strategy 2027–2031 **appears ambitious on paper, but conceals a serious gap between what is planned and what is realistically achievable.** The Strategy projects an almost threefold increase in capital expenditures – from 43.6 billion denars in 2027 to 95.9 billion in 2031, with their share of total expenditures rising to 17.1%. The problem is that in 2024 and 2025, capital expenditure execution was only 60% of the original plan, under budget projections considerably lower than those projected for the upcoming period.

Without a structural change in absorption capacities, applying the same historical execution rate to future projections implies an

expected real outturn of approximately 58 billion in 2031 instead of 95.9 – a gap of nearly 38 billion denars, or an entire development programme that exists only on paper (Table 5). An additional cause for concern is that the public investment management system is still not fully operational – the final priority project list has not been adopted to date.

Table 5 – Capital expenditures: planned versus realistic

Year	Planned (bn MKD)	Realistic (60%, bn MKD)	Difference (bn MKD)
2027	43,6	~26	-17,6
2029	56,8	~34	-22,8
2031	95,9	~58	-37,9

Source: Fiscal Strategies and own calculations.

On the revenue side, the picture is equally unfavourable. Finance Think already flagged in [FT Comment No. 40 on the Draft Budget of North Macedonia for 2025 \(19 November 2024\)](#) that the projected 12.8% revenue growth for 2025 was unrealistic – an assessment fully confirmed: final execution for 2025 was only 92% of the revised budget. This is not a negligible technical deviation – it means that **the baseline from which future projections are built is overestimated from the outset.**

An additional signal is Q1 2026 revenue execution of 21.7% of the annual plan – somewhat below the pace needed for uniform execution, and a first indicator that the risks

identified in December 2025 are beginning to materialise.

The Fiscal Strategy projects total revenues at approximately 33.2% of GDP over the medium term, with moderate nominal growth. Revenue projections rely on a combination of expected nominal economic growth and structural reforms – **primarily formalisation of the shadow economy and the introduction of e-invoicing.** Although the e-invoicing system is not yet operational – a fact the document itself notes – its fiscal effects have already been incorporated into the revenue projections. Similarly, the expected reduction of the informal economy to 26% of GDP by 2027 has no concrete monitoring mechanism or action plan with measurable intermediate results. In other words, part of the projected revenues is in fact conditional – dependent on reforms that have not yet been implemented.

In sum, the revenue side of this Fiscal Strategy **is realistic in its foundations, but vulnerable in its assumptions** – and every reform that is delayed translates directly into less fiscal space in the years ahead.

IV. ON CRITICAL EXPENDITURES

Expenditure structure: social transfers dominate, reforms are absent

Total expenditure over the medium-term period moves within 36–37% of GDP, with a stated intention to **gradually reduce current expenditures and increase capital ones.** However, the structure of current expenditures reveals the

deep inertia of the budget: social transfers – pensions, healthcare, social protection – absorb 54% of total current expenditures and remain the **dominant and politically untouchable item**. Public sector wages rise from 52.6 to 68.9 billion denars by 2031, with no strategy for optimising headcount or linking wage growth to productivity growth.

Interest expenditures, as analysed above, grow automatically and independently of policy decisions. What remains as manoeuvring space – goods and services, subsidies, transfers – is a relatively small and already compressed portion of the budget. **The document promises cuts to non-essential expenditures, but without specifying which items, in what amounts, and through what mechanism.** The expenditure review – which should provide answers to these questions – is still being prepared with IMF and World Bank support, with a target of covering 20% of total expenditures; its findings have not been integrated into this Fiscal Strategy.

As a result, **the expenditure side is a projection of the status quo with moderate nominal adjustments, not the product of strategic prioritisation.**

The pension system: the largest expenditure item, without a reform agenda

Within the expenditure structure, pensions are by far the single largest item – 121.9 billion denars in 2027 – and simultaneously the least flexible. The transfer from the Budget to the Pension and Disability Insurance Fund has grown continuously: from 42.5 billion in 2024 to 62.8 billion in 2026,

covering **42% of the Fund's total revenues**. Nearly half of the pension system is financed not from contributions but directly from the budget.

The Fiscal Strategy projects a reversal by 2031 – the transfer falls to 53.5 billion, and its share in the Fund's revenues to 31% – but this projection rests on the assumption of 35% contribution growth, driven by increases in employment and wages. If the labour market fails to deliver the projected growth, that assumption becomes invalid.

More importantly, the projections do not account for **demographic trends** at all: population ageing and the emigration of working-age population are structurally worsening the ratio of contributors to beneficiaries – precisely during the period the Strategy covers.

The absence of any structural pension reform in the document – without parametric adjustments, without a long-term sustainability analysis – means the Strategy treats the pension system as a static category rather than a dynamic risk.

An additional risk is the political dynamics of pension increases. In the past two years, pensions were raised by lump-sum amounts on four occasions – twice by 2,500 denars and twice by 1,000 denars – creating a precedent that every future government will be under pressure to repeat, regardless of the Fund's condition or available budget space. **This is a risk that does not stem from economics but from political logic – and is therefore particularly difficult to manage within a medium-term fiscal framework.**

V. HIDDEN AND UNDERESTIMATED FISCAL RISKS

One of the most significant yet least visible parts of the Fiscal Strategy is what the official deficit does not show – **the hidden fiscal burden accumulating outside the budget balance.**

Public enterprises are the first and most significant source of this risk. In 2024, 9 out of 14 joint-stock companies in state ownership ended the year with a loss, and the total net result of the entire portfolio is a loss of 3.9 billion denars. The Fiscal Strategy notes the risk, analyses liquidity, solvency and profitability indicators, and concludes that **these entities are classified as high-risk** – but the conclusion stops precisely there, without a restructuring plan and without a fiscal target.

State guarantees are the second layer of contingent liabilities. At end-2025, they amount to 1.3 billion euros – 7.4% of GDP – with nearly 60% concentrated in the Public Enterprise for State Roads (PESR). Particularly significant is the change in the financing of Corridors 8 and 10d: under legislative amendments taking effect in June 2026, the obligation to secure financing for the project's implementation is transferred to PESR, which will borrow on the basis of a state guarantee.

Why is this problematic? When the state directly finances an infrastructure project through the budget, that expenditure is visible in the budget, budget-controlled and part of the deficit. When the same project is financed by a public enterprise through borrowing backed

by a state guarantee, the expenditure disappears from the budget – artificially reducing the official deficit. **The difference is accounting, not substantive.**

If PESR is unable to service those liabilities – and given that 59% of total state guarantees are already concentrated in the same enterprise – it is the state that will pay, with a direct impact on the budget. This is off-budget financing in its classic form: shifting the burden outside the view of budget statistics, without any substantive change to who bears the risk.

The third layer consists of **arrears recorded** in the ESPEO system – 41.6 billion denars as of March 2026, representing an 86% increase compared to 2017. These liabilities do not enter the official deficit, although they are economically equally real: goods have been delivered, services rendered, but payment has been deferred. Their continued increase signals that parts of the public sector chronically spend more than they can pay. It should be noted, however, that some of these arrears relate to other budget users, so their effect is primarily one of liquidity rather than of full fiscal significance in the sense of obligations owed to creditors outside state and public institutions.

In summary, the official deficit represents only part of the true fiscal picture. **Contingent liabilities and the latent deficit together form a parallel fiscal burden that is – conservatively estimated – significant.** The Fiscal Strategy identifies these risks but offers no concrete mechanism for addressing them – and this is not merely a transparency problem, but a

risk to medium-term fiscal sustainability.

V. TRANSPARENCY AND DOCUMENT QUALITY

The Fiscal Strategy 2027–2031 contains several elements that merit a positive assessment. **A detailed sensitivity analysis with four scenarios is good analytical practice rarely found in similar documents.** Comparison tables with the previous Strategy are transparent and useful for tracking policy consistency over time. Deviations across different fiscal scenarios are quantified, and the sectoral breakdown of expenditures is detailed and informative.

Nevertheless, the document has several significant transparency weaknesses:

- **The official deficit conceals the true fiscal picture.** The figure of 3.5% for 2027 does not include arrears, contingent liabilities under guarantees, or the losses of public enterprises that will sooner or later require budget transfers. The real augmented deficit is considerably larger, and the document makes no attempt to quantify it.
- **E-invoicing:** revenues are projected even though the system is not operational. In the same document, it is acknowledged that e-invoicing is still not functioning, while its expected fiscal effects are included in the revenue projections. This is an internal consistency weakness

that directly overestimates expected revenues.

- **Corridors 8 and 10d:** under the legislative amendments taking effect in June 2026, project financing is channelled through PESR borrowing backed by a state guarantee. The costs disappear from the official deficit, but the risk remains entirely state-borne. The document addresses this only implicitly, without clearly quantifying the future fiscal burden.
- **Absence of a transparent consultative process.** Although the Deputy Minister of Finance declaratively mentioned in the Assembly that the document was prepared in consultation with the academic community and MANU, there is no public documentation of that process – no list of consulted institutions, no summary of comments received, no explanation of which suggestions were accepted or rejected. Compared to good practices in transparent budget planning, where the consultative process is documented and publicly available, this represents a significant shortcoming. The Fiscal Strategy is a key public finance management document – its quality and legitimacy are strengthened by open dialogue, not declarative commitments.

CONCLUDING COMMENT

Based on this analysis, Finance Think proposes the following concrete steps:

- **The primary deficit** should be communicated and monitored in parallel with the overall deficit – the latter remains the statutory fiscal rule and the reference point for Maastricht compliance, but the primary deficit is a more accurate indicator of the structural budget position and should be given equal prominence in public communication and parliamentary monitoring.
- **An augmented fiscal balance should be published annually** – including contingent liabilities under guarantees, arrears from the ESPEO system, and public enterprise losses requiring budget support.
- **The fiscal rule should be equipped with an enforcement mechanism** – exceptions should be time-limited and should trigger automatic corrective consolidation over the following two fiscal years.
- **A realistic capital expenditure path based on historical execution rates**, not maximum budget projections – with a clear distinction between direct capital investments and transfers to municipalities and public enterprises.
- **A public enterprise strategy with fiscal targets** – not merely monitoring and reporting, but concrete profitability objectives, a restructuring timeline, and clear conditions for future state support.
- **Operationalisation of e-invoicing** – its fiscal effects should be recognised in revenue projections only once the system is demonstrably operational, not in advance.
- **A transparent consultative process** for future fiscal documents – with publicly available documentation of consultative meetings held, institutions consulted, comments received, and explanations for which suggestions were accepted or rejected.