

# "The Role of the Financial Sector in the Economic Development of the Republic of North Macedonia: Trends and Challenges."

**Lindita MUAREMI**

Associate professor  
Department of Finance  
Faculty of Economics  
University of Tetova  
St. Ilinden nn, 1200 Tetova, Macedonia  
e-mail: lindita.muaremi@unite.edu.mk

DOI: 10.29322/IJSRP.15.08.2025.p16403

<https://dx.doi.org/10.29322/IJSRP.15.08.2025.p16403>

Paper Received Date: 14th June 2025

Paper Acceptance Date: 25th July 2025

Paper Publication Date: 6th August 2025

**Abstract:** This study analyzes the key role of the financial sector in the economic development of the Republic of North Macedonia, examining the main trends and challenges facing financial institutions in the country. Through an analysis of key factors, the paper examines how banks, capital markets, insurance funds and pension funds contribute to improving economic stability and sustainable growth of the country's economy. It will also explore trends and challenges facing the financial sector, including macroeconomic uncertainties, impacts from international markets, political instability and the need for innovation and technology. By highlighting the importance of a stable and effective financial sector, this analysis aims to provide a deeper understanding of the opportunities for further economic development of North Macedonia and the challenges that need to be addressed to achieve long-term and sustainable development.

**Keywords:** Role, Financial Institutions, Economic Development, Financial Services.

## Introduction

Many financial decisions and relationships related to households and businesses in most economies involve the use of banks, capital markets, insurance companies, and other institutions that are similar to them. Mainly, these institutions that specialize in providing financial services make up the financial sector of a country's economy. The financial sector is a key component or essential part of any economy as it provides the necessary resources for investment and economic development, namely it plays a key role in the economic development of the country, including North Macedonia. In North Macedonia, the financial sector has been and is an important part of the economy that has contributed to the improvement of economic conditions. which has also provided financing opportunities for various sectors such as industry, agriculture, and services, influencing these sectors to grow and develop properly. We can say that over the years the financial sector has gone through different stages of development but is still facing various challenges that are important to mention. These challenges include inflation, high unemployment, informal economy, economic crisis, etc.

The paper analyzes the role of the financial sector in the economic development of North Macedonia. In this paper, it will be examined how the financial sector has influenced the country's economy, what are the main trends and the challenges..

**The primary objective of this paper is to provide a deeper understanding of the role of the financial sector in North Macedonia, to explore the impact of this sector on the country's economic development, focusing on analyzing the trends and challenges of this sector.**

### **Objective of the Study:**

1. Explain the role of the financial sector in improving the economy and creating financial stability by focusing on banks, capital markets, and funds.
2. To analyze the main challenges and trends that impact in financial sector of North Macedonia.
3. To know the importance of a sustainable financial sector for the long-term development of the country.
4. To give recommendations for the improvement of the financial sector and addressing the existing challenges.

### **1. FINANCIAL SECTOR**

The financial sector plays an important role in the economic development of a country; it serves the country as an important source of capital and financial stability. This sector is comprehensive, therefore it includes a wide range of institutions, such as institutions and markets that manage, transfer and use these financial funds, generally commercial banks, central banks, capital markets, insurance companies, investment funds, pension funds, etc.

It is clear that a financial system together with the financial sector play an important role in the economic growth and development of the country, because their efficient way provides better financial services, as they promote economic growth, while their less developed way will cause prevention of economic growth.

In the economy, many financial decisions and relationships of households and firms involve banks, capital markets, insurance companies, and similar institutions, which are specialized in providing financial services and constitute the financial sector of the economy. Of course, the financial sector is a very important part of almost every financial system and plays a key role in the economic development of the country.

Finance plays a crucial role in the economic advancement of North Macedonia, as it contributes to creating ideal conditions for growth and development. The financial sector plays an important role in maintaining the stability of the economic system and provides support to key sectors of the economy by providing the necessary financial resources for investment, development and innovation. Its importance is manifested in two main aspects: facilitating access to capital and providing assistance in managing economic risks.

According to Bexhet, the financial sector plays an important role in providing the necessary resources for investment and sustainable development. A strong and sustainable financial sector guarantees a country's sustainable growth and improves the capacity to support the development of other sectors of the economy.

The financial sector includes institutions such as banks, insurance companies, and financial markets. It is essential for: Capital Raising: Banks provide deposit and loan facilities, facilitating access to finance for individuals and businesses.

There are reforms that are important as they strengthen the financial sector and make it more effective in supporting economic development.

The reforms being undertaken are mainly important because they create better conditions for investment and contribute to strengthening the financial sector and economic stability. According to the report of the European Bank for Reconstruction and Development (EBRD) for the period 2019-2024, North Macedonia has undertaken a series of reforms aimed at creating a more favorable environment for investment.

These reforms include simplifying administrative procedures and providing fiscal incentives to attract investors.<sup>1</sup>

This is an important step towards improving the economic climate in the country, as it facilitates the entry of foreign capital and creates better conditions for the development of various economic sectors. These reforms are essential for the further growth of the Macedonian economy and for the strengthening of the financial sector.

To summarize - The financial sector plays an important role as it supports the economic development of the country, as well as contributes to the creation of conditions for making good investments.

## 2. ECONOMIC GROWTH THEORY

One of the most popular theories explaining the role of the financial sector is the Economic Growth Theory. This theory, developed by authors such as Levine, argues that the financial system helps in the efficient allocation of resources and stimulates investment.<sup>2</sup>

The financial sector provides the means for raising and transferring capital, facilitating access to finance for individuals and businesses. This is particularly important for North Macedonia, where foreign and domestic investment are essential for economic growth. A strong banking system and reliable financial institutions can increase the level of investment by providing loans for infrastructure projects and the development of strategic sectors such as agriculture and technology.

The financial sector plays an important role in the economic development of North Macedonia, providing resources and support for sustainable growth. A strong financial system is essential for creating conditions that foster investment and economic growth. Banks, as the main financial institutions, mobilize the population's savings and distribute or direct them in the form of loans for investments that affect the growth of economic activity and the creation of jobs.

According to studies, credit growth is closely linked to economic growth as it allows companies to invest in new projects and expand their operations.<sup>3</sup>

The financial sector has a major impact on economic stability, especially in terms of supporting risk management. Financial institutions, such as insurance companies and banks, offer products that help individuals and businesses protect themselves from financial uncertainties, including insurance and financial instruments. This contributes to increasing investor confidence and increasing economic activity. The financial sector also helps develop financial infrastructure, which enables easier access to financial services for a larger number of the population. Advances in financial markets and digital services have given individuals and businesses more opportunities to participate in the local economy, including activities that were previously inaccessible.<sup>4</sup>

---

<sup>1</sup>EBRD, "Strategjia për Maqedoninë e Veriut" (Banka Evropiane për Rindërtim dhe Zhvillim, 2019)

<sup>2</sup> Ross Levine, *Financial Development and Economic Growth: Views and Agenda*, Journal of Economic Literature, (1997): 688-726

<sup>3</sup> Lorenzo Ductor, Daryna Grechyna, *Financial development, real sector output and economic growth*, (2015)

<sup>4</sup> Philip Arestis, *"Financial Development and Economic Growth: The Role of Stock Markets,"* Journal of Money, Credit and Banking 33, no. 1 (2001)

On the other hand, it is clear that an unstable financial sector can negatively impact economic development. Often, financial crises come from bad management of financial resources, which can reduce public confidence and reduce investments in the local economy. Therefore, it is imperative that governments and financial institutions work together to create a sustainable environment that supports economic development. In conclusion, the financial sector is a key factor for the economic development of North Macedonia, creating the foundations for a stronger and more competitive economy.

### **3. THE MAIN COMPONENTS OF THE FINANCIAL SECTOR**

The main components of the financial sector in North Macedonia constitute an important part of the country's economic development and stability. Here are some of them:

**Financial Institutions and Banking Institutions** In the framework of the financial sector, financial institutions and banking institutions play an essential role in the economic development of Macedonia. Financial Institutions are the main carriers of operations and financial transactions, offering services to individuals, businesses and governments. These institutions are important for raising funds and providing services that help individuals and businesses manage financial resources..<sup>5</sup>

Banking institutions, on the other hand, constitute a subcategory of financial institutions. They operate by accepting deposits from the public and providing loans. Commercial banks, investment banks, and central banks are some of the types of banking institutions operating in North Macedonia.

**Financial Markets** include the securities market and the capital market. They primarily play an important economic role by redirecting funds from people who have saved excess money by spending less than their income to people who lack money and want to spend more than their income. These markets provide a platform for trading financial instruments such as stocks and bonds. The development of financial markets is important for the efficient allocation of resources and enables investment opportunities for individuals and companies.

**Insurance Institutions** are institutions that belong to the group of institutional investors that create their financial potential or resources through the collection of funds based on insurance contracts, the sale of insurance policies to individuals and businesses. These institutions offer products that help individuals and businesses protect themselves from various risks, such as accidents and property damage. These products contribute to increasing investor confidence and help stabilize the economy, providing a safer environment for investment.

**Pension Funds** are created with the aim of managing funds created from the contributions of employees during their working life, mainly these funds are designed to provide benefits in the form of income for employees after their retirement. They also contribute to the long-term financial stability of society.

Ultimately, these components are essential for the efficient functioning of the financial sector in North Macedonia, contributing to the country's economic development and financial stability.

### **4. THE MAIN FUNCTIONS OF THE FINANCIAL SECTOR**

---

<sup>5</sup> Arun Tairi, *Tregjet dhe institucionet financiare*, Tetove, (2023)

This publication is licensed under Creative Commons Attribution CC BY.

10.29322/IJSRP.15.08.2025.p16403

The financial sector in North Macedonia plays an important role in the economic development and stability of the country, where these functions help in the management of financial resources and support for investments.

Savings mobilization is an important function, banks and financial institutions collect savings from businesses or individuals, converting them into loans for investments, which helps increase economic activity and create jobs and facilitates the circulation of money in the economy.

Businesses and individuals often face challenges and uncertainties, and these services help them minimize losses and stay safe even in difficult situations. Furthermore, these measures increase confidence in the economy, stimulating investment and economic activities in general. In this way, the financial sector not only contributes to economic stability, but also plays a role in creating a sustainable environment for further growth.

One of the most important aspects of the functioning of the financial sector is the provision of credit to individuals and businesses. This process is vital for the implementation of various projects, including those related to the development of infrastructure and the increase in production capacities. In particular, the construction and manufacturing sectors benefit greatly from financing, as these areas often require significant funds to expand operations and improve technology. This function is an important driver of economic development, because it positively affects the creation of jobs and the improvement of economic conditions at the national level.

In addition, technological advancements have increased the importance of digital financial services, which provide easier and faster access for users, including large groups of the population who previously did not have the opportunity to use these services. Digital technology not only increases competition among financial institutions, but also improves the user experience and creates significant benefits for the economy. On the other hand, regulatory oversight is an important aspect for stability and transparency in the financial sector. Rules set by supervisory authorities help protect consumers and prevent harmful practices.

A strong regulatory system positively affects the functioning of the financial sector, making it more stable and reliable. Taking into account all these elements, it can be said that the financial sector has a major impact on the economic development and stability of North Macedonia.

The functions of the financial system, such as savings management, credit provision, risk management, financial market development, and effective supervision, are important for building a modern financial system that positively impacts the national economy.

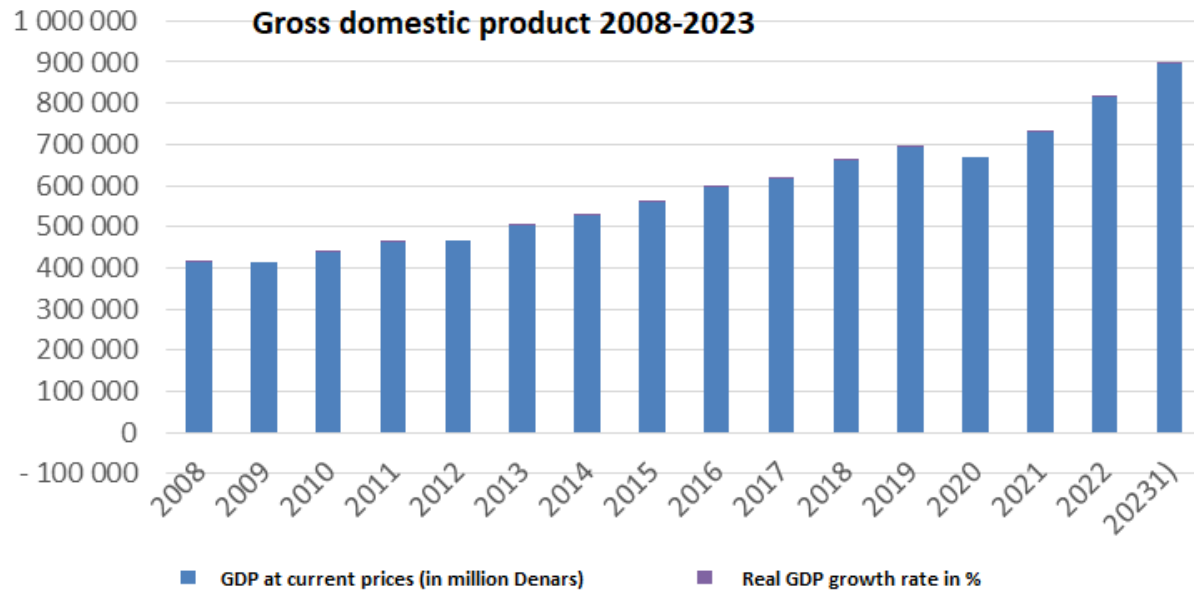
As we have said above, a strong and stable financial sector guarantees a sustainable growth of the country and improves the capacity to support the development of other sectors of the economy. It also plays an important role in supporting the economic development of the country, mainly through the intermediation of capital, the provision of financial services and the support of investment activities. This sector has a direct impact on the growth of GDP, the promotion of investments and the creation of jobs.

We will analyze how the financial sector affects them below:

#### **4.1. GDP growth through the development of financial sectors**

The financial sector has an impact on GDP growth by providing loans to enterprises and individuals where these funds can be used for investment in projects or expansion of existing businesses. These loans are provided by commercial banks, microfinance institutions,

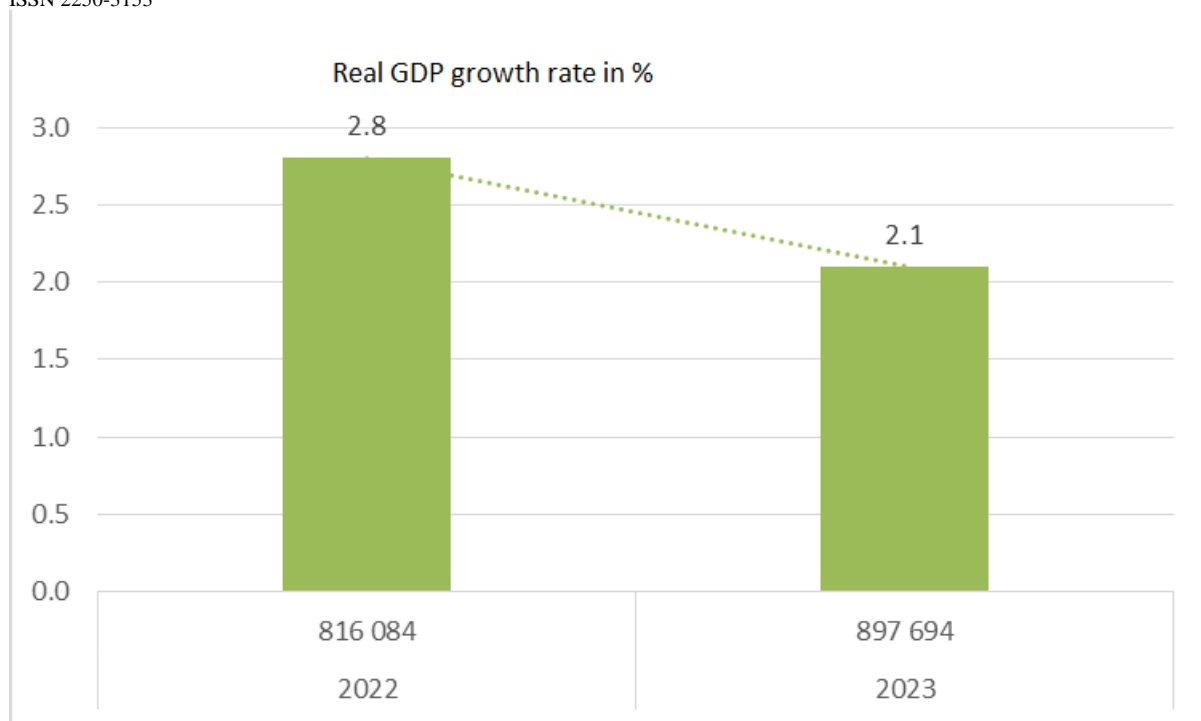
etc., which affect the growth of economic activity in the



country.

**Chart.1. Source: State Statistical Office**

Interpretation: According to data from the State Statistical Office, the gross domestic product of North Macedonia has had a steady growth trend from 2008 to 2023, except for a few years. The value of GDP has increased from 414.89 billion dinars in 2008 to 897.69 billion dinars in 2023. This indicates a doubling of GDP within 15 years. But the exceptions are years like 2009 and 2020 where an economic contraction was observed (-0.4% in 2009 and -4.7% in 2020) due to the global financial crises and the COVID-19 pandemic. Despite these, the real growth rate has caused fluctuations since it was higher in 2008 (5.5%) and 2021 (4.5%). In 2020, there was a contraction of (-4.7%) due to the restrictive measures of the pandemic that negatively affected the main sectors of the economy.

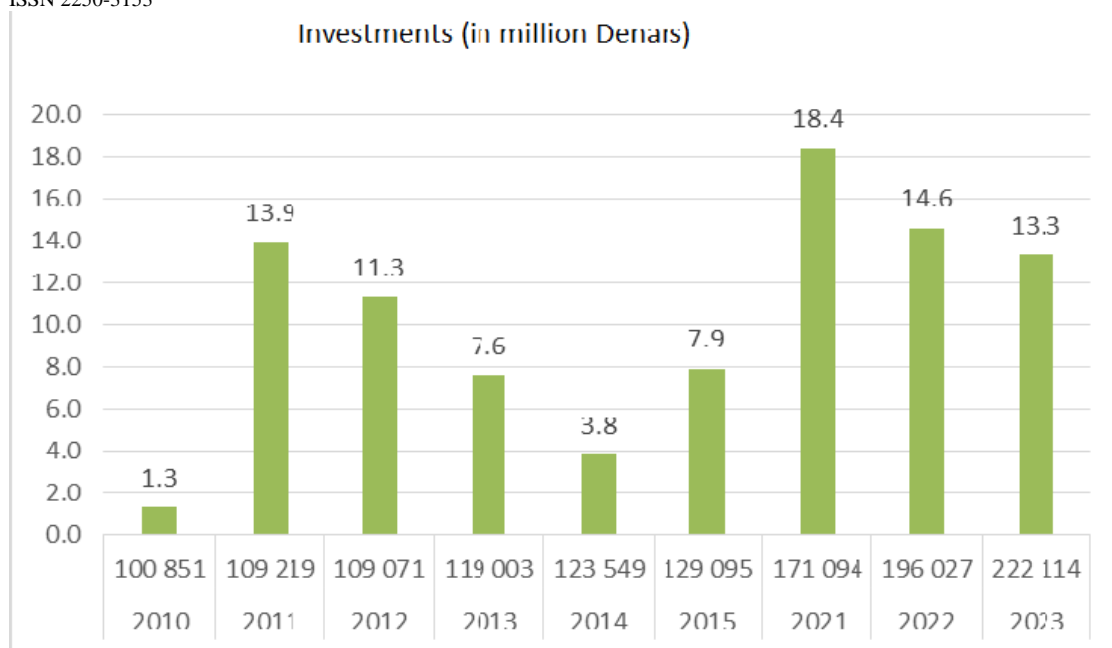


**Chart.2. Source: State Statistical Office**

After the pandemic in 2021 and thereafter, the real GDP growth rate stabilized although it still remains relatively low at (2.8%) in 2022 and (2.1%) in 2023. It should be emphasized that nominal GDP growth is related to the development of the financial sector and the increase in investments which are an important part of economic growth.

#### **4.2. The impact of investments in the financial sector**

The growth of fixed investments in North Macedonia is a positive indicator of the country's economic development and financial stability. Investments are very important for creating jobs and improving infrastructure, thus contributing to the sustainable development of the country's economy. Investments are related to the financial sector. As we can say that investments are a key factor for the economic development of the country. A well-developed financial sector attracts foreign direct investment, mainly in North Macedonia. The improvement of the financial infrastructure has helped attract some international investments, which have contributed to the development of sectors such as manufacturing, technology and services. Banks and financial institutions have also financed important infrastructure projects that have contributed to the country's development.



*Source: State Statistical Office*

Interpretation: According to data from the State Statistical Office, from the graph we can see that investments have had a significant increase, going from 100,851 million denars in 2010 to 222,114 million dinars in 2023, which indicates a doubling of their value within 13 years. The highest point of investments was reached in 2023 with 222,114 million denars, marking an increase of 13.3% compared to the previous year. The highest growth was observed in 2021 with 18.4%, also the years 2011 and 2012 have marked high growth in investments with 13.9% and 11.3%. While the years 2014-2015 are characterized by lower rates (3.8% and 7.9%).

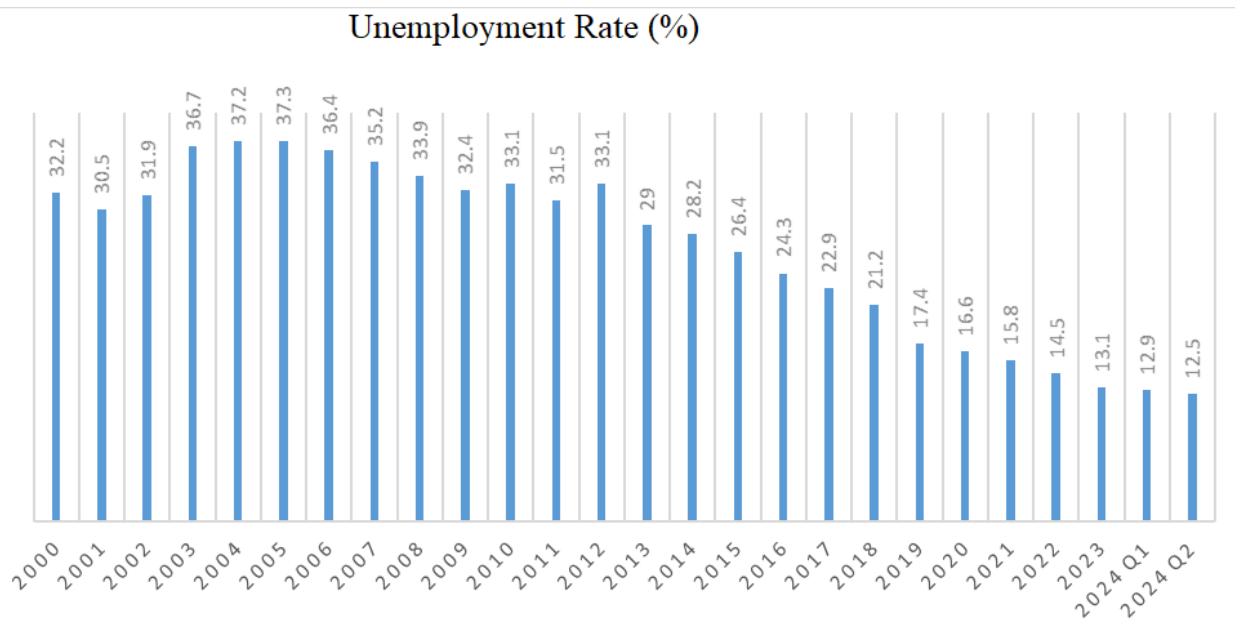
#### **4.3. Unemployment - The role of the financial sector in job creation**

As we have mentioned above, the financial sector, by providing loans and support through banks and other institutions for small and medium-sized enterprises, also affects the growth of employment in the economy, mainly investments financed by this sector promote the creation of new jobs. Through lending and capital management, the financial sector helps in the expansion of enterprises and attracting new investors. Employment in the financial sector is also increasing, where the development of financial institutions creates jobs in the banking sector and financial services, this increases the employment of financial specialists, marketing, IT, etc.

The following will analyze the unemployment rate in North Macedonia over the years:



Evolution of the unemployment rate – Graph showing the decline in unemployment over the



**Chart 1.**

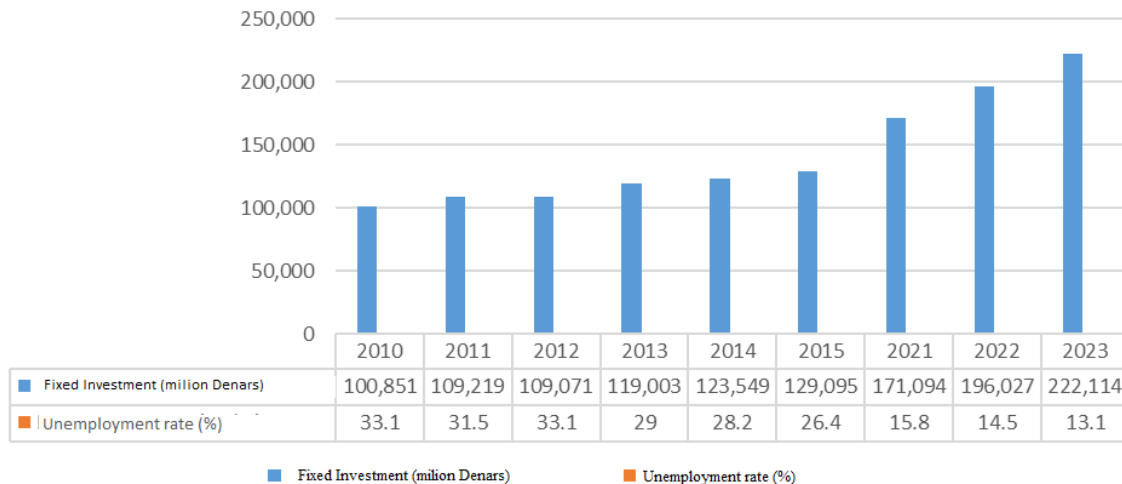
**Source:** World Bank Group, State Statistical Office.

Interpretation: According to data from the World Bank and the State Statistical Office in the period from 2000 to the second quarter of 2024, the unemployment rate in North Macedonia has had a steady decline, going from 32.2% in 2000 to 12.5% in the second quarter of 2024. This downward trend is the result of various factors, including the development of the financial sector, investments in infrastructure, as well as improvements in employment policy. For this period of time, a noticeable decline in the unemployment rate can be observed that has followed developments such as the reduction of tax rates and the promotion of direct investments by banks and financial institutions, which have created new job opportunities. Mainly, the decline in unemployment from 33.1% in 2010 to 12.5% in 2024 has been helped by fiscal policies and the development of banks that provide loans to businesses and individuals.

#### **4.4. The role of fixed investment and the financial sector in reducing unemployment in North Macedonia.**

The financial sector has acted as an important catalyst for economic growth and job creation in North Macedonia. From the graph we clearly understand that the increase in fixed investments has had a positive impact on the creation of new jobs.

## The impact of fixed investment on the unemployment rate



**Chart 1. Source: World Bank Group, State Statistical Office.**

Interpretation: According to data from the World Bank and the State Statistical Office, the graph showing the relationship between fixed investments and the unemployment rate for the period 2010-2023 shows the significant impact of increased investments on reducing unemployment. Fixed investments have increased from around 100 million denars in 2010 to over 222 million denar in 2023, while the unemployment rate has dropped significantly from 32% to 15%.

These investments have not only created new jobs, but have also improved the conditions for the sustainable economic development of the country.

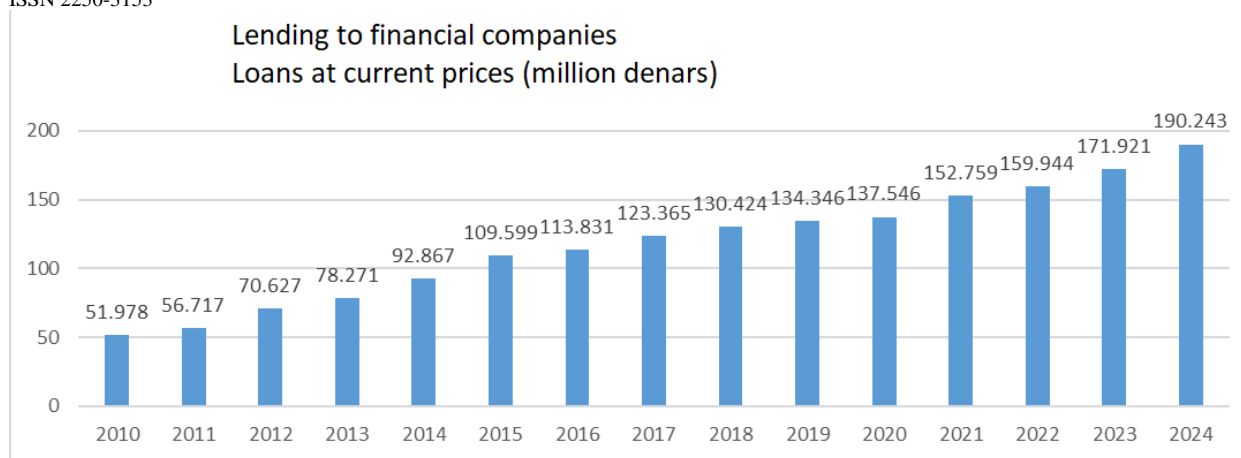
## 5. THE MAIN TRENDS IN NORTH MACEDONIA

One of the main trends is the increase in financing opportunities for micro, small and medium-sized companies, which make up a large part of the country's economy. Through banks, credit opportunities are offered to these companies in order to help them cope with financial challenges and increase their competitiveness. This credit from banks is important for companies that need working capital and investments to increase their production capacity. A certain amount of credit is also given to start-up companies or businesses, and this has led to an increase in the number of financial products.

In the following, we will analyze the crediting of financial companies over the years from 2010-2024 from data provided by the National Bank of North Macedonia.

### 5.1. Lending in financial companies

Recently, we can say that in the financial sector in North Macedonia, several important trends have emerged that have had an impact on the economic development of the country, most importantly, we can also mention the continued banking stability, which has been essential for creating a sustainable economic environment.



**Source: National Bank of North Macedonia (NBP)**

Interpretation: From the data, we can see a continuous increase in the amount of loans granted by financial companies during the years 2010-2024. Mainly, in 2010, lending was around 52 million dinars, while in 2024 it reached over 190 million dinars, from this we can say that financial companies have had an important role in providing loans to individuals and businesses.

We would like to highlight the most important: 1. Continuous growth - Lending has increased almost every year without significant decreases. 2. Expansion of the financial sector - This growth can be linked to the expansion of the financial sector and the increased demand from citizens and businesses for loans. 3. Economic impact - In recent years, the amount of higher loans may also indicate an economic development of the country, in which people and businesses have more opportunities and need for financing.

In conclusion, we can say that these data reflect a positive development of lending and the important role that financial institutions play in the economy of North Macedonia.

It is evident that in recent years there have been some changes in the financial sector, especially as our banks in the country are becoming more and more modern, for example, now almost everything can be done over the phone from paying bills to transferring money. This trend has contributed to increasing competition in the financial sector and has also contributed to improving the quality of services.

When we talk about the main trends in North Macedonia, we cannot avoid foreign direct investment (FDI) which has played an important role in the economic development of North Macedonia, but even though the country is still facing challenges in attracting foreign investment, in recent years there has been a positive increase in this aspect. For example, in 2022, foreign direct investment was 753.8 million Euros, which indicates a growing interest from foreign investors (Macro trends, 2024). Foreign companies are opening in the country and this has a positive impact because new jobs are created, technology and new knowledge are transferred, productivity increases in different sectors also bring new ideas to our economy. But there is also the fact that we are still not as attractive to foreign investors as our neighboring countries and that attracting foreign investment remains a challenge for North Macedonia.

in relation to technology, the financial sector in North Macedonia is changing, from the way we use banking services, for example the banks in our country are becoming more modern because now we can do almost everything through our phone, check the account, make payments, we can even apply for certain issues and this not only saves us time but also makes it easier for people who are located far from the cities who use these services banking.

New companies called "fintech" have also emerged, which are businesses that use technology to offer financial services in new and different ways, making it easier for young people to save or invest money, although these companies are still in the early stages of development.

But there are still challenges, especially with the elderly who are still not used to using these new technologies, for this reason banks are making every effort to help and educate their customers on how to use these new services. In conclusion, we can say that these trends or changes are positive for economic development in the country because they make it easier for people to manage their money and for businesses to grow and work better, which can help in economic growth in our country both now and in the future, but it is important that these new technologies are used carefully and people benefit from them.

Banks are increasingly investing in various digital applications and platforms that enable customers to conduct transactions and manage their finances more easily. This trend has contributed to improving the efficiency of banks.

In conclusion, we say that the financial sector in North Macedonia plays an important role in the economic development of the country, as foreign investments, banking stability, and technological growth contribute to the modernization of the financial sector and increase the efficiency of the sector, but in order to benefit as much as possible from these positive trends or developments, North Macedonia must continue to improve business conditions and solve the problems that hinder the attraction of foreign investments, as this would help create a more attractive environment for investors that would increase the economic development of the country. We hope that these positive trends will continue and help us become more competitive in the region.

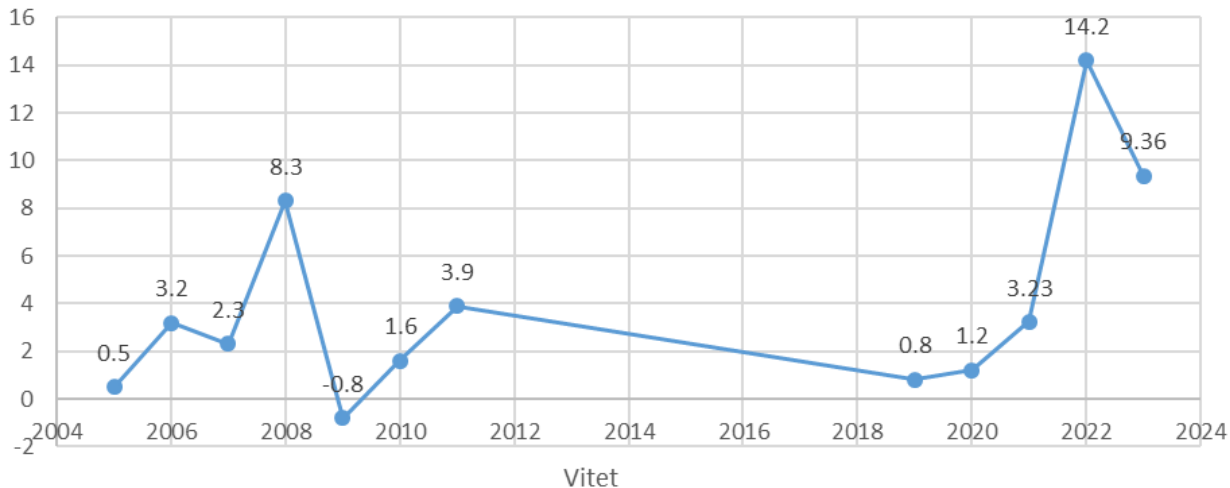
## **6. MAIN CHALLENGES OF THE FINANCIAL SECTOR OF NORTH MACEDONIA**

The financial sector in North Macedonia plays an important role in the country's economic development, providing liquidity and financing opportunities for individuals and businesses..

However, the financial sector has also faced a series of challenges over the years, these challenges are related to internal and external factors occurring in the economic, political and global environment including inflation, high unemployment, dependence on foreign markets, financial crisis and political uncertainty. Mainly, these challenges have hindered the economic development and financial stability of the country, creating difficult conditions for individuals and businesses.

Regarding inflation and its effects on the financial sector, we can say that inflation is one of the biggest challenges that directly affect the sector. How the inflation rate has changed over the years will be reflected in the the graph below

## Inflation Rate



### *Burimi: Trading economics, MakStat database*

Interpretation: According to inflation data from 2005-2011 and 2019-2023, these data show large changes in the inflation rate, including periods of low inflation and sudden increases in some years. Inflation has marked a significant decline in 2009 and 2010, mainly, in 2009 inflation was negative (-0.8%), but after that there has been a continuous increase, with the highest level in 2022 (14.2%) and a relatively high level in 2023 with the rate (9.36%). These fluctuations directly affect the financial sector, creating challenges such as affecting the deterioration of purchasing power because when inflation is high as it was in 2022, this affects the reduction of the value of savings and affects the cost of living.

Inflation reduces the purchasing power of individuals and increases the cost of living, which makes people more dependent on credit. This increases the demand for credit, but it can also make it difficult to repay existing loans, which is a risk for banks.

On the other hand, in periods of high inflation, banks will face difficulties because interest rates may increase to combat inflation, which will reduce the demand for credit and lead to potential losses for banks. In the financial sector, high inflation will create uncertainty by pushing individuals and companies to avoid their savings and seek safer investment opportunities, which could affect confidence in the financial sector and cause people to withdraw their deposits from banks, mainly due to a loss of confidence in banks.

Stable prices are essential for the stability of the financial sector. The tightening of monetary policy aims to support this stability in the medium and long term. However, in the short term, rising interest rates can pose challenges for banks and their customers. This is because higher borrowing costs can worsen customers' ability to repay financial obligations.

For institutional investors, especially those outside the banking sector, the risks of economic losses from bond portfolios increase. Thus, supporting financial stability requires a careful balance between monetary policy and financial market impacts. <sup>6</sup>

In conclusion, high inflation is a major challenge for the financial sector because it can increase risks for banks and negatively affect the economic growth or economic development of the country. The role of the Bank of North Macedonia is to carefully monitor

<sup>6</sup> Banka Popullore e Republikes se Maqedonise se Veriut, *Raporti mbi stabilitetin financiar*, Viti (2022)

This publication is licensed under Creative Commons Attribution CC BY.

10.29322/IJSRP.15.08.2025.p16403

inflation and take measures to stabilize prices by maintaining a balance between stimulating economic growth and controlling inflation.

One of the main challenges for the financial sector in North Macedonia is also high unemployment. As we have analyzed unemployment above, we can say that since 2010, where unemployment has been at a high rate of 33.1%, there has been a decline over the years, where in 2024 it is 12.5%, we can say that this decline is the result of fiscal policies and the development of banks that offer loans to businesses and individuals. High unemployment has important consequences for the financial sector because many people want to work or find a job, but on the contrary do not find positions that match their skills or that offer good working conditions.

According to some studies in North Macedonia, unemployment has the characteristics of involuntary unemployment and structural unemployment, it is emphasized that involuntary unemployment occurs when individuals want to work but do not find suitable job opportunities. . Involuntary unemployment occurs when a person is unemployed despite being willing to work at the prevailing wage. It is distinguished from voluntary unemployment, where a person chooses not to work because the reserved wage is higher than the prevailing wage..<sup>7</sup>

In addition to involuntary unemployment, structural unemployment is also prevalent in North Macedonia, this unemployment is related to the lack of match between the skills of job seekers and the demands of the labor market. Structural unemployment is a type of long-term unemployment where significant changes in an industry make a job title or field of work redundant. This occurs when workers have certain skill sets that may not translate to other positions or industries. . A large part of unemployment is "structural," as the new positions that are created often do not match the skills or qualifications of job seekers.

According to a document by Gordana.S, it is discussed that unemployment in North Macedonia is particularly high among young people and that addressing this situation requires improving skills and qualifications that are in line with market needs. This is a serious challenge that negatively affects the financial sector and economic growth in the country. <sup>8</sup>

It is important to say that high levels of unemployment reduce the demand for financial products such as credit and savings and this will naturally affect the profits of financial institutions. Unemployed people cannot afford to pay their loans and this will increase the risk of loans in the banking system, this will negatively affect the overall economy and the functioning of the financial system. We can mainly summarize it in one word that individuals and families without stable income have difficulty obtaining loans or using banking services and this situation will reduce the demand for financial products and will affect the profits of financial institutions. Unemployment is what affects consumption and investment by slowing down economic growth and the government's ability to support the financial sector.

Also, when unemployment increases, it creates uncertainty in the market, which negatively affects investments and the economic stability of the country, where this situation can result in a negative cycle because unemployment reduces consumption, investments

---

<sup>7</sup> Article from Wikipedia, the free encyclopedia, "*Involuntary unemployment*"

<sup>8</sup> Gordana Serafimovic, *THE RELATIONSHIP BETWEEN THE GDP AND UNEMPLOYMENT RATE IN NORTH MACEDONIA*,

Journal name: Knowledge

This publication is licensed under Creative Commons Attribution CC BY.

10.29322/IJSRP.15.08.2025.p16403

and slows economic growth, while on the other hand it also limits government revenue from taxes and the government's ability to support the financial sector during such periods.

In conclusion, unemployment represents a significant challenge for the stability and development of the financial sector, where to address this problem it is necessary to draft policies that promote employment and improve economic conditions. Mainly, this will help create a more favorable environment for financial development and the well-being of citizens.

Another challenge is the informal economy, which means that many businesses operate or work without being officially registered. This constitutes about 20-47% of our economy, where these businesses, as they are otherwise called, that work "in the black" do not pay taxes and this negatively affects the country, also these informal businesses cannot obtain loans from banks so they have difficulty growing.

Another challenge facing the financial sector in our country is that it relies heavily on banks, meaning that we have limited development of financial markets as we do not have much opportunity to invest our money, such as in stock markets, and that capital markets and non-bank financial institutions remain relatively underdeveloped. There are also problems in finding people with the right skills to work in the financial sector as many young people do not have the necessary knowledge or choose to leave the country to work abroad. The mismatch of their skills contributes to high youth unemployment and emigration and this makes it more difficult for banks and other financial institutions to grow in the financial sector, find good employees, develop new ideas and limit innovation.

North Macedonia is also vulnerable to economic crises or global economic uncertainties that occur in the economic world such as the recent energy crisis that has negatively affected the financial sector and the country's economy, which shows that we need to be better prepared as a country to cope with these situations in the future.

Political instability is one of the important challenges in the financial sector because it has negatively affected this sector in several key issues such as:

Trust or uncertainty for investors - frequent political changes have reduced investor confidence and caused fluctuations in financial markets, hindering long-term investments.

Unsustainable economic policy - different governments have implemented different economic policies each time, creating uncertainty and difficulties for institutions and businesses.

Increase in public debt - Political tensions is what has often influenced the increase in public spending, where these expenditures have increased public debt. Public debt has had an upward trend in recent years. For example, in 2014 it was 38.1%, while in 2018 it increased by 47.3%. The political crisis that began in 2015 negatively affected the country's economy. The economic situation has influenced the increase in public debt and increased pressure on the financial system of North Macedonia.

European integration - North Macedonia has difficulty progressing towards membership in the European Union due to political problems and other disagreements, where these difficulties have caused the country to miss out on the benefits that would come from cooperation with European markets and financial regulations, for this reason the development of the financial sector has been negatively affected.

The informal economy has grown - when things are politically focused most people and businesses choose to work "in the black" without paying taxes which will result in less money for the government and unfair competition for businesses that operate according to the rules.

There are also other problems or challenges that come from political instability but these make it more difficult for the financial sector and for businesses to operate and function well. Political change have caused the country to lose time because instead of moving forward, which is implied by rapid steps, the development of the financial sector in the country has progressed at a slow pace, leaving North Macedonia behind other countries in the region.

To improve the situation, North Macedonia needs greater political stability and reforms that will strengthen institutions and business rules. The results verified that to solve these challenges, many changes must be made, laws must be improved, more investments must be made in education, strengthening financial institutions, regulatory reforms, investments in skills development and improving governance.

## CONCLUSIONS AND RECOMMENDATIONS

According to the research carried out, it was found that that the financial sector plays a very important role in the economic development of the Republic of North Macedonia. Financial institutions such as banks, capital markets, insurance companies and other financial institutions help in economic growth by making it possible to provide credit, collecting people's savings and using them for investments. The paper noted that a healthy financial sector affects the creation of jobs, increasing investments in the country and improving people's lives. In this study is analyzed that this sector is facing several challenges, such as political instability, the need for new technologies, the impacts of international markets, etc.

There should be more political stability in the country to increase investor confidence. Banks and other financial institutions should use new technology more to provide better services to the country, mainly by adapting new technologies that will facilitate access to services for businesses and individuals. Financial education should be increased among people so that they can use financial services better. The government should encourage more competition in the financial sector in order to have better services for people. Financial institutions should be more careful in managing risks to avoid problems. Supervision and regulations should be improved as this will help risks to be managed better and will ensure sustainable development of the country. If appropriate and necessary changes are made in the financial sector in North Macedonia, this sector will naturally become stronger and at the same time will contribute more to the economic development of the country. More job opportunities will also be created, more investments in the country and a better life for all.

## REFERENCES:

- (EBRD), B. E. (2019). *Strategjia për Maqedoninë e Veriut (2019-2024)*. Banka Evropiane për Rindërtim dhe Zhvillim (EBRD). Retrieved from <https://www.ebrd.com/documents/strategy-and-policy-coordination/north-macedonia-strategy-in-albanian.pdf>
- (IMF), I. M. (2024). *Republic of North Macedonia: 2023 Article IV Consultation and First Review Under the Precautionary and Liquidity Line*.
- Arestis, P. e. (2001). Financial Development and Economic Growth. *Journal of Money, Credit and Banking*.
- Bundo, S. L. (2001). *Sistemi financiar shqiptar dhe roli i institucioneve të ndërmjetësimit brenda tij*.



Development, E. B. (2019). *Republic of North Macedonia Country Strategy 2019-2024*.

Ductor, L. &. (2015). *Financial development, real sector output, and economic growth*. Retrieved from [https://repository.mdx.ac.uk/download/ce13c7e3e7db73ac12fad317c93dffca42d4d4994539f1585f91371d642db7b4/408564/DuctorGrechyna\\_051114.pdf](https://repository.mdx.ac.uk/download/ce13c7e3e7db73ac12fad317c93dffca42d4d4994539f1585f91371d642db7b4/408564/DuctorGrechyna_051114.pdf)

economics, T. (n.d.). *North Macedonia Inflation Rate*. Retrieved from <https://tradingeconomics.com/macedonia/inflation-cpi>

Frederic S.Mishkin, S. G. (2012). *Financial markets and institutions*.

Group, W. B. (2023). North Macedonia Shows Resilience Despite Slowing Growth and Continued Price Rises.

Group, W. B. (2024). *Unemployment*. Retrieved from <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2023&locations=MK&start=2000>

Levine, R. (1997). Financial Development and Economic Growth: Views and Agenda. . *Journal of Economic Literature*,.

Macrotrends. (2024). *North Macedonia Foreign Direct Investment*. Retrieved from <https://www.macrotrends.net/global-metrics/countries/MKD/north-macedonia/foreign-direct-investment>

Milatovic, P. S. (2019). *North Macedonia Diagnostic*. European Bank for Reconstruction and Development.

Serafimovic, G. (n.d.). THE RELATIONSHIP BETWEEN THE GDP AND UNEMPLOYMENT RATE IN NORTH MACEDONIA. *KNOWLEDGE*.

Shearing, K. (2024). *Structural Unemployment*. Retrieved from Indeed: <https://www.indeed.com/career-advice/career-development/structurally-unemployed>

Statistikave, E. S. (n.d.). *MakStat database*. Retrieved from Macroeconomic indicators, by years: [https://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat\\_\\_BDP\\_\\_BDPInvesGodisni\\_\\_BDPsporedESS95/225\\_NacS mA\\_Mk\\_05M167\\_ang.px/table/tableViewLayout2/](https://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat__BDP__BDPInvesGodisni__BDPsporedESS95/225_NacS mA_Mk_05M167_ang.px/table/tableViewLayout2/)

statistikes, E. s. (2024). *Active population in the Republic of North Macedonia, second quarter of 2024*. Retrieved from [https://www.stat.gov.mk/PrikaziSoopstenie\\_en.aspx?rbtxt=98](https://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbtxt=98)

statistikes, E. s. (n.d.). *Investimet*. Retrieved from <https://www.stat.gov.mk/IndikatoriTS.aspx?id=8>

Tairi, A. (2023). *Tregjet dhe Institucionet Financiare*. Tetove.

Tairi, A. (2023). *Tregjet dhe Institucionet Financiare*. Tetove.

Tairi, A. (2023). *Tregjet dhe Institucionet Financiare*. Tetove.

Veriut, B. P. (2022). *Raporti mbi stabilitetin financiar*. Retrieved from [https://www.nbrm.mk/content/FSR\\_2022\\_MKD.pdf](https://www.nbrm.mk/content/FSR_2022_MKD.pdf)

Veriut, B. P. (n.d.). *Te dhenat per sistemin bankar*. Retrieved from Кредитна изложеност: [https://www.nbrm.mk/podatotsi\\_i\\_pokazatieli\\_za\\_bankarskiot\\_sistiem\\_na\\_riepublika\\_makiedonija.nspk](https://www.nbrm.mk/podatotsi_i_pokazatieli_za_bankarskiot_sistiem_na_riepublika_makiedonija.nspk)

Veriut, E. s. (2023). *Rritja e PBB-se*. Retrieved from [https://www.stat.gov.mk/PrikaziSoopstenie\\_al.aspx?rbtxt=32](https://www.stat.gov.mk/PrikaziSoopstenie_al.aspx?rbtxt=32)

Veriut., E. S. (n.d.). *Raporti mbi PBB*. Retrieved from [https://www.stat.gov.mk/PrikaziSoopstenie\\_al.aspx?rbtxt=32](https://www.stat.gov.mk/PrikaziSoopstenie_al.aspx?rbtxt=32)

Wikipedia. (n.d.). *Involuntary unemployment*.

