



**REPUBLIC OF NORTH MACEDONIA  
MINISTRY OF FINANCE**

**SEMI-ANNUAL REPORT ON EXECUTION  
OF THE BUDGET OF THE REPUBLIC OF  
NORTH MACEDONIA**

**JANUARY – JUNE 2019**

**Skopje, July 2019**

## Summary

- Gross Domestic Product in Q1 2019 compared to the same quarter of 2018 picked up by 4.1% in real terms, by which growth of economic activity continued with intensified dynamics;
- Number of employed persons in Q1 2019 was higher by 5.3% on annual basis, whereby employment growth was the highest in Manufacturing. Unemployment rate in Q1 2019 dropped to 17.8%;
- In the first half of 2019, inflation rate amounted to 1.2%, as a result of the increased prices of food products and growth of the core inflation, while prices of energy sources dropped;
- Total budget revenues were collected in the amount of Denar 96.2 billion in the period January – June, accounting for 45.6% of the amount projected for 2019;
- Total budget expenditures were executed in the amount of Denar 103.2 billion in the period January – June 2019, accounting for 45.2% of the annual projections;
- In the period January – June 2019, budget deficit of RNM amounted to Denar 7.0 billion, accounting for nearly two fifths of the projected deficit, i.e. 1.0% of the GDP projected for 2019;
- At the end of the first quarter of 2019, general government debt of the Republic of North Macedonia accounted for 38.2% of GDP, while public debt, including the guaranteed debt, accounted for 46.1% of GDP.

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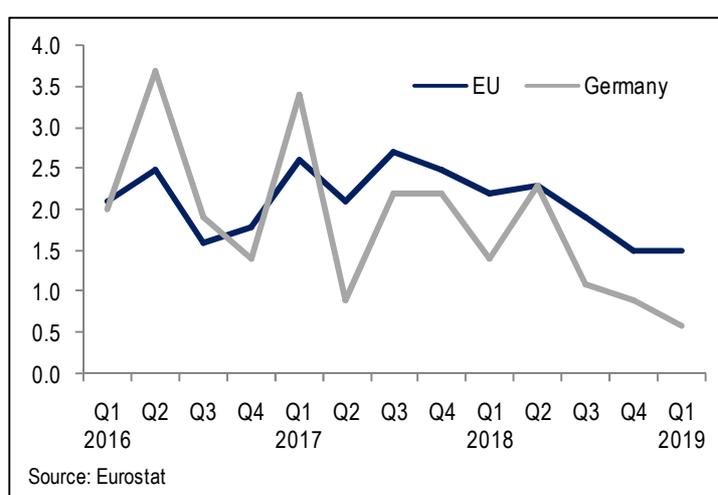
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## 1. International Economic Trends<sup>1</sup>

Growth of economic activity in the EU in the first quarter (Q1) of 2019 accounted for 0.5% on quarterly basis, i.e. 1.5% on annual basis (Chart 1). Economic growth was driven by domestic demand, also reflecting the positive effects of several temporary factors, such as favourable weather conditions, from which benefited the construction activity, increase in the sale of cars in the Eurozone upon the unfavourable trends in the second half of 2018, the significant growth of export of goods in the United Kingdom, triggered by the possible Brexit, as well as the fiscal policy measures, which increased the available income of households in several member states.

In the next quarters, the activity of the European economy will be mostly conditioned by the resilience of the services sector and the labour market taking into account the weaknesses in the Manufacturing, the strong economic growth in Central and Eastern Europe, being contrary to the slowed down economic growth in Germany and Italy.

Chart 1. Annual economic growth in EU and Germany (in %)



Real GDP growth in the EU is projected at 1.4% in 2019, being intensification compared to 2018, when the growth accounted for 2.0%, while economic activity growth in the Eurozone is expected to decrease from 1.9% in 2018 to 1.2% in 2019. Germany, as the largest economy in the EU and the most important trading partner to North Macedonia, is envisaged to register 0.5% economic growth in 2019.

Projected growth of the European economy is subject to risks, which are tilted to the downside. In fact, any further escalation of trade tensions and an increase in political uncertainty could prolong the current downturn in global trade and Manufacturing, and triggered a tightening of global financial conditions. Brexit issue remains to be the main source of uncertainty within the EU.

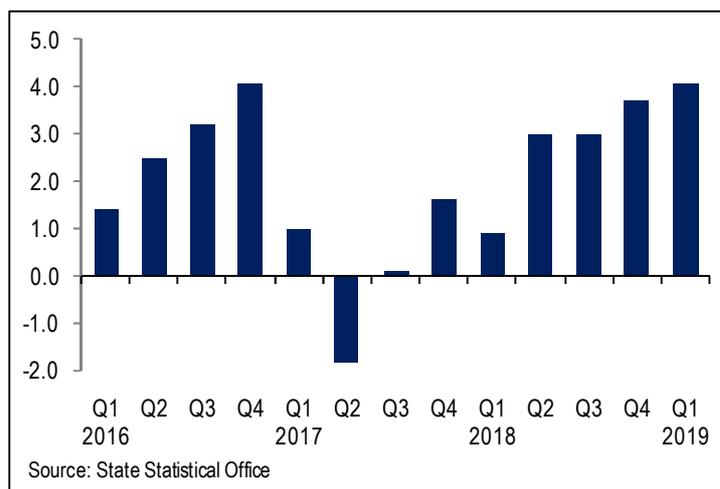
<sup>1</sup> Analysis in this section is based on the Summer Report of the European Commission "European Economic Forecast - Summer 2019", published in July 2019

## 2. Macroeconomic Trends in the Country<sup>2</sup>

### 2.1. Economic Activity

Gross Domestic Product (GDP) in Q1 2019 compared to the same quarter of 2018 picked up by 4.1% in real terms, by which growth of economic activity continued with intensified dynamics (Chart 2).

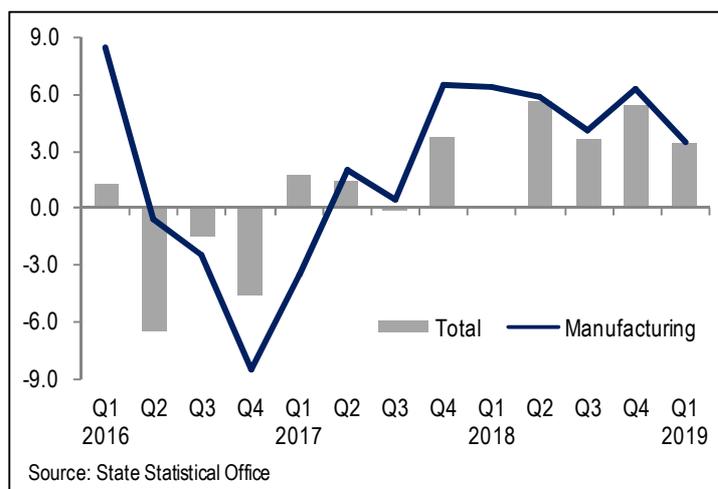
Chart 2. Real annual GDP growth (%)



Analyzed by fields of activity, economic growth in Q1 2019 was a result of the positive performance at almost all fields of activity. Construction activity picked up by 7.0% in real terms, which in line with the high-frequency data on performed construction works was a result of the growth of construction activity as regards civil engineering structure, i.e. road construction. Agricultural activity experienced significant growth of 13.6% in real terms. Growth in the industrial sector accounts for 3.4% in real terms, being strongly encouraged by the 3.5% growth in Manufacturing (Chart 3). High-frequency data show continuation of positive trends in the industry in April and May, by which the growth of industrial production in the period January-May accounted for 6.5%. Manufacture of machinery and equipment, electrical equipment, beverages, pharmaceutical products and preparations, as well as manufacture of textile and metals had more significant contribution to growth. Services sector registered growth of around 2.7%, mostly as a result of intensified activity in the Trade, transport and catering sector by 6.6%. Positive trends in Trade sector, according to the high-frequency data, continued with similar intensity in April and May, in conditions of sales increase at all segments.

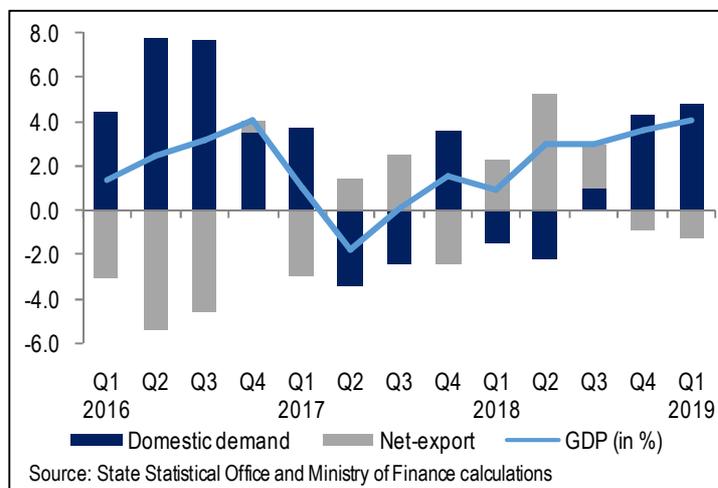
<sup>2</sup> Recently available data are used in the Report. As regards GDP, unemployment and balance of payments, data as of Q1 2019 inclusive, are available.

Chart 3: Industrial sector (annual growth rates)



Analyzed according to the expenditure side of GDP, economic activity growth in Q1 2019 was a result of growth of domestic demand, coupled by the growth of both consumption and gross investments. Consumption surged by 2.1% in real terms, mostly as a result of the private consumption, which surged by 2.6%, being mostly a result of the disposable income of households, amid growth of employment and wages in the economy. Private consumption was also underpinned by crediting to households. Real growth of gross investments continued with more intensified dynamics, reaching nearly 10.0%, being a result of the investments in construction works, also underpinned by more intensive crediting of the corporate sector.

Chart 4. Contribution by Component to annual GDP Growth (in percentage points)



Growth of export of goods and services in Q1 2019 amounted to 15.6% in real terms, mainly as a result of export by the capacities in the free economic zones, also supported by the sound performance of some of the other export segments. Import of goods and services surged by 14.4% in real terms. Monthly data on foreign trade in April and May showed retained high growth of export, which amounted to 14.8% in nominal terms in the period January – May, driven by the increased export of machinery and transport equipment, chemical, metal and food products. Import of goods in this period picked up by 14.1%, whereby trade deficit of goods accounted for 7.4% of the projected GDP in the period January – May, which was within the expectations.

Continuous acceleration of growth in the course of 2018, especially in the last quarter, accompanied by strong FDI inflow and recovery of the investment demand, as well as the positive movements in the first quarter in 2019 observed through more intensive growth of the industrial production and the sales in the trade activity, keeping the solid growth of the construction activity in the previous quarter, continuously strong growth of the export activity and stronger crediting to the private sector were basis for slight upward revision of the economic activity growth projection in 2019 to 3.5% (from 3.2% previously). Such positive movements are also recognized by the most international institutions, which carried out upward revision of the economic growth projection (Table 1).

Table 1. Comparison of economic growth and inflation projections for 2019 (%), revised and previous projections

Institution	Real GDP Growth (%)		Inflation (%)	
	previous	latest	previous	latest
IMF	2.6	3.0	2.0	1.8
World Bank	2.9	2.9	2.0	1.8
European Commission	2.8	3.0	2.0	1.7
EBRD	3.0	3.0	/	/
Fitch Ratings	3.2	3.4	/	/
Vienna Institute (WIIW)	3.0	3.1	2.0	2.0
NBRNM	3.5	3.5	2.0	1.5
Ministry of Finance	3.2	3.5	2.0	2.0

Source: IMF (World Economic Outlook Database), World Bank (Western Balkans Regular Economic Report), European Commission (European Economic Forecast), EBRD (Regional Economic Prospects), Vienna Institute (Forecast Report) and NBRNM (Quarterly Report)

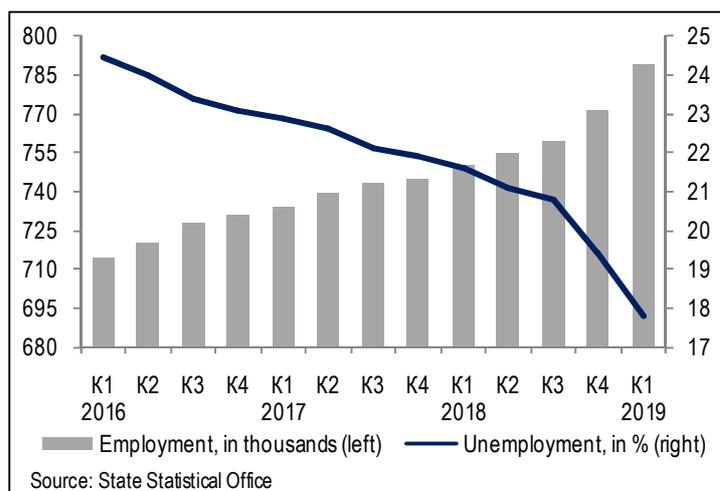
## 2.2. Labour Market

Positive trends on the labour market in Q1 2019 continued with a more intensified pace compared to the previous several quarters (Chart 5). According to the Labour Force Survey, employment rate in Q1 2019 amounted to 46.9% and, compared to the same quarter in 2018, it was higher by 2.3 percentage points (p.p.). Number of employed persons was higher by 5.3%, i.e. by 39.5 thousand persons compared to the same quarter in the previous year, whereby highest growth of employment was recorded in Manufacturing, transport and information and communication activity.

Analyzed according to the economic status, employment growth was registered at employed persons (wage earners) and self-employed persons, where employment increased by 9.0% and 1.4%, respectively.

Increase of employment rate was accompanied by drop in the number of unemployed persons, decreasing by 35.4 thousand persons, i.e. by 17.1% compared to the same quarter in 2018. Such trends caused for the unemployment rate in Q1 2019 to reduce to 17.8%, i.e. by 3.8 p.p. compared to the same quarter in 2018, being lower by 1.6 p.p. compared to the previous quarter. (Chart 5). Observed by age groups, unemployment rate decreased at all groups, whereby the most significant reduction was at the age group 15-24 years, accounting for 37.0%.

Chart 5. Number of Employed Persons and Unemployment Rate



Number of active population increased by 4.1 thousand persons, i.e. by 0.4% on annual basis. Active population in Q1 2019 accounted for 57.1% of the total working age population, being higher by 0.2 p.p. compared to the same quarter in 2018.

Average monthly net wage in Q1 2019 grew by 3.4%, while positive trends also continued in April and May, when growth of 3.5% and 3.1% in nominal terms, respectively, was recorded. Thus, in the period January-May 2019, average net wage was higher by 3.4% in nominal terms and 1.9% in real terms, which is preserving of the growth of wages at solid level, being a result of the increase of wagers at almost all fields of activity.

### 2.3. Inflation and Monetary Trends

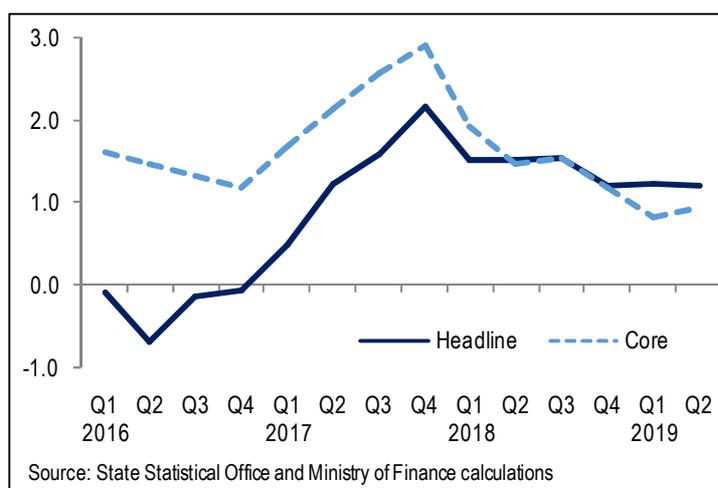
Average inflation rate in the first half in 2019 amounted to 1.2%, being somewhat lower than the expectations. Growth of consumer prices in the first half of the year was a result of the growth of prices of food products (2.4%), and the core inflation<sup>3</sup> (0.9%), while prices of energy sources decreased. Quarterly dynamics shows equal growth of prices in the both quarters in the first half (Chart 6).

In March 2019, National Bank of the Republic of North Macedonia reduced the reference interest rate from 2.5% to 2.25%, reflecting the moderate inflation and the continuous favourable trends on the foreign exchange market, in the absence of pressures in the external sector and the stable perceptions by the domestic entities.

Positive trends at deposits and credits continued in the first half of 2019. In June 2019, total deposits in the banking system were higher by approximately 10.5% on annual basis, being mostly a result of the increased Denar deposits, being higher by 14.0%. Credit activity in June 2019 continued with solid dynamics, i.e. credit growth accounted for 8.1% on annual basis, amid intensified crediting to enterprises (6.4% growth) and stable crediting to households (growth of almost 10.0%).

<sup>3</sup> Inflation without the food and energy components.

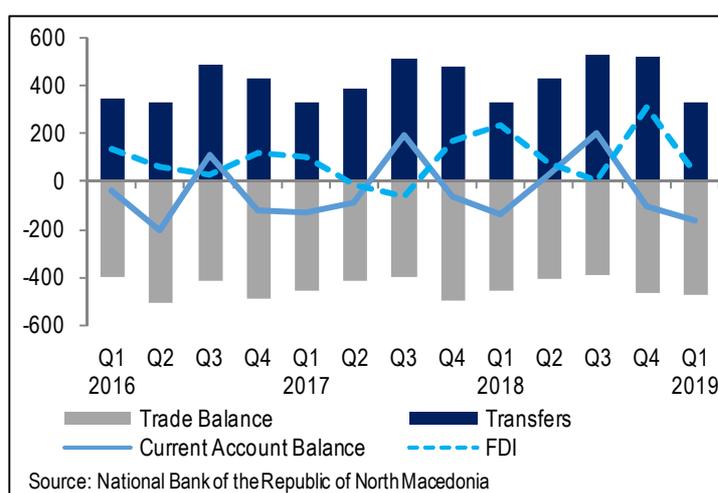
Chart 6. Annual Inflation Rate (%)



## 2.4. Balance of Payments

BOP current account had a negative balance in the amount of EUR 162 million in Q1 2019, mainly as a result of the trade deficit, whereby almost 70% thereof was covered by the positive balance on the secondary income account (net transfers abroad), as shown in Chart 7. Compared to the same quarter in 2018, current account deficit experienced certain widening, mostly as a result of the deteriorated balance at the trade of goods and services. In the coming period, amid envisaged increase of inflow of private transfers from abroad, more favourable performance at the current account balance is expected.

Chart 7. BOP Trends (euro million)



Foreign Direct Investments (FDIs) in the country amount to EUR 29.7 million in Q1 2019, upon the strong inflow noticed last year. FDIs in this period are in the form of equity and profit re-investment, on the basis of which inflow of EUR 173 million was registered, while inter-company transactions negatively affected the total inflow of FDIs.

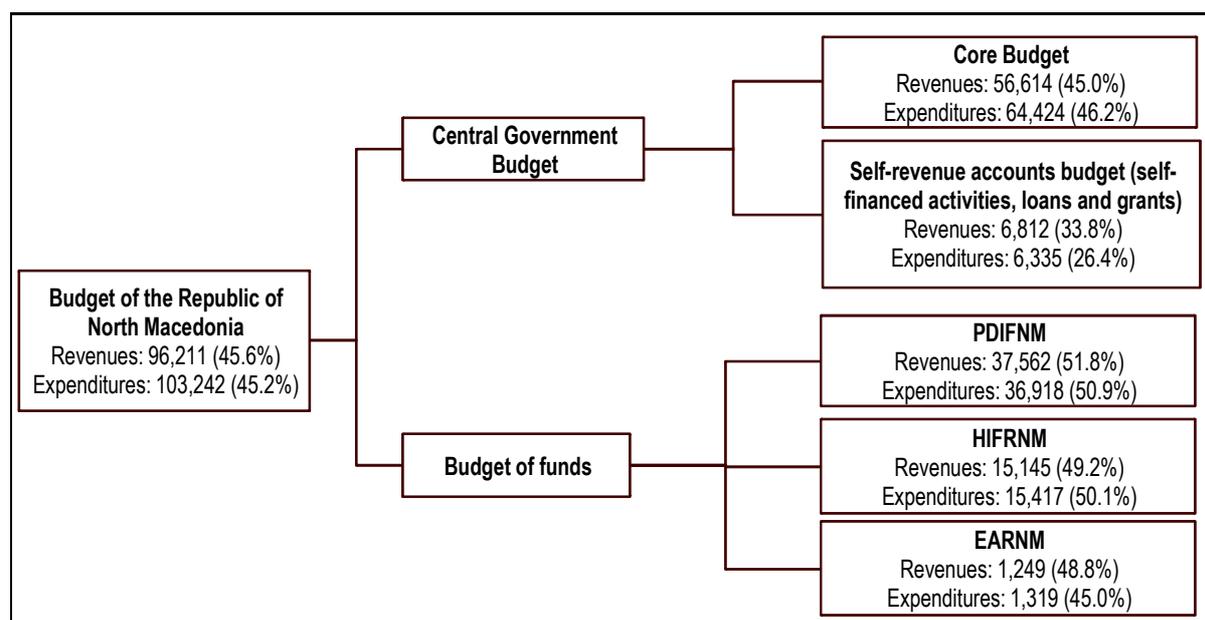
At the end of June 2019, foreign currency reserves amounted to EUR 2.9 billion, being higher by 2.1% compared to the end of 2018. At the end of June, reserve assets provided for 4.4-month coverage of import of goods and services in the past period, being at an adequate level to manage the possible shocks.

### 3. Fiscal Sector

#### 3.1. Budget of the Republic of North Macedonia

Within 2019 Budget of the Republic of North Macedonia, total revenues are projected in the amount of Denar 210,848 million, total expenditures are projected in the amount of Denar 228,548 million, i.e. deficit is projected in the amount of Denar 17,700 million (Core Budget deficit amounting to Denar 13,479 million, Funds' deficit in the amount of Denar 379 million and the deficit on the self-revenue accounts amounting to Denar 3,842 million).

Chart 8. Scheme of the Budget of RNM - performance (Denar million) and execution rate (%) in the first half of 2019



Total budget revenues were collected in the amount of Denar 96,211 million, accounting for 45.6% of the projected amount for 2019, being an increase by 6.1% compared to the total budget revenues collected in the same period in 2018 (Table 2). As regards total revenues, Denar 84,559 million was collected on the basis of tax revenues and social contributions, by which the execution rate accounts for 45.9% of the amount projected for 2019, being 2.6% increase in relation to the previous year. Thereby, tax revenues were collected in the total amount of Denar 55,140 million<sup>4</sup> (i.e. 45.2% of the amount projected for 2019), while social contributions were collected in the amount of Denar 29,419 million (annual increase of 9.0%, i.e. 47.2% of the amount projected for 2019). Within tax revenues, annual increase was recorded at personal income tax accounting for 16.0%, import duties accounting for 2.7% and excise duties accounting for 1.6%. VAT revenues remain unchanged, while profit tax revenues decreased by 20.5%.

Total budget expenditures of the Republic of North Macedonia were executed in the amount of Denar 103,242 million in the period January – June 2019, accounting for 45.2% of the annual projections, i.e. an increase of 8.5% compared to the first half of 2018. Thereby, current expenditures were executed in the amount of Denar 97,963 million, i.e. 48.4% of the amount projected throughout the year, surging by 7.5% compared to the same period in 2018, mainly as a result of the higher transfers by 6.9% (8.5% growth of the transfers for pensions, social assistance and health protection and 5.4% growth of transfers for VAT, block and earmarked grants, as well as higher execution related to goods and services by 14.0%, interest expenditures by 23.8%, and

<sup>4</sup>It also includes the self-revenue accounts in the amount of Denar 677 million.

wages and allowances by 4.4%. Capital expenditures were executed in the amount of Denar 5,279 million, being higher by 31.3% compared to the same period in 2018. Execution rate of capital expenditures in the first half was usually lower, i.e. it accounted for 20.3% in 2019, by which the execution of these expenditures is expected to intensify in the second half.

Table 2. Budget Execution of RNM for the period January – June 2019

	Budget 2019	January - June 2019			Jan - Jun 2013 -2018	Jan - Dec 2013 -2018
	in denar million	in denar million	yearly growth rate	execution rate	average execution rate (compared to original budget)	
<b>TOTAL REVENUES</b>	<b>210,848</b>	<b>96,211</b>	<b>6.1%</b>	<b>45.6%</b>	<b>45.8%</b>	<b>95.7%</b>
<b>Taxes and Contributions</b>	<b>184,201</b>	<b>84,559</b>	<b>2.6%</b>	<b>45.9%</b>	<b>47.6%</b>	<b>98.9%</b>
Taxes	120,166	54,463	-0.4%	45.3%	47.6%	98.4%
Personal Income Tax	19,083	8,702	16.0%	45.6%	48.6%	105.4%
Profit Tax	15,301	6,535	-20.5%	42.7%	76.3%	128.5%
VAT	52,136	24,068	0.0%	46.2%	44.5%	92.5%
Excises	27,280	12,037	1.6%	44.1%	48.3%	107.0%
Import Duties	5,816	2,855	2.7%	49.1%	49.0%	100.2%
Other Taxes	550	266	9.0%	48.4%	27.9%	55.1%
Contributions	62,316	29,419	9.0%	47.2%	47.9%	100.2%
<b>Non Tax Revenues</b>	<b>18,521</b>	<b>9,374</b>	<b>57.9%</b>	<b>50.6%</b>	<b>35.0%</b>	<b>75.4%</b>
<b>Capital Revenues</b>	<b>2,026</b>	<b>395</b>	<b>-51.3%</b>	<b>19.5%</b>	<b>36.2%</b>	<b>69.9%</b>
<b>Foreign Donations</b>	<b>6,000</b>	<b>1,883</b>	<b>32.6%</b>	<b>31.4%</b>	<b>36.9%</b>	<b>99.5%</b>
<b>Revenues from repayment of loans</b>	<b>100</b>	<b>0</b>	<b>-100.0%</b>	<b>0.0%</b>	<b>30.8%</b>	<b>67.1%</b>
<b>TOTAL EXPENDITURES</b>	<b>228,548</b>	<b>103,242</b>	<b>8.5%</b>	<b>45.2%</b>	<b>46.6%</b>	<b>95.9%</b>
<b>Current Expenditures</b>	<b>202,577</b>	<b>97,963</b>	<b>7.5%</b>	<b>48.4%</b>	<b>48.7%</b>	<b>98.8%</b>
Wages and Allowances	28,388	13,637	4.4%	48.0%	48.9%	98.5%
Goods and Services	19,643	7,774	14.0%	39.6%	40.8%	84.7%
Transfers	145,366	73,824	6.9%	50.8%	50.5%	100.7%
Social Transfers	107,675	53,591	8.5%	49.8%	49.7%	101.0%
Pensions Fund	64,614	32,862	9.1%	50.9%	50.1%	101.4%
Unemployment Benefits	2,241	1,055	28.0%	47.1%	40.3%	89.0%
Social Benefits	10,607	4,490	7.7%	42.3%	49.5%	101.7%
Health Care	30,213	15,184	6.2%	50.3%	49.7%	100.9%
Other Transfers	35,565	19,512	2.9%	54.9%	53.0%	100.0%
Interest	9,180	2,728	23.8%	29.7%	40.4%	108.8%
<b>Capital Expenditures</b>	<b>25,971</b>	<b>5,279</b>	<b>31.3%</b>	<b>20.3%</b>	<b>31.6%</b>	<b>74.4%</b>
<b>BUDGET BALANCE</b>	<b>-17,700</b>	<b>-7,031</b>	<b>54.9%</b>	<b>39.7%</b>	<b>52.7%</b>	<b>95.6%</b>

Source: Ministry of Finance

In the period January – June 2019, budget deficit of RNM amounted to Denar 7,031 million (Table 2), accounting for 1.0% of the GDP projected for 2019. Within the Budget of the Republic of North Macedonia, Core Budget deficit amounted to Denar 7,810 million, Funds realized surplus of Denar 302 million, while the surplus realized on the self-revenue accounts amounted to Denar 477 million.

Considering the revenue collection and expenditure execution within the Budget of the Republic of North Macedonia in the first half of the year, certain downward deviations compared to the amounts projected throughout 2019 are possible, which would have no negative effect on the deficit. In particular, budget deficit of RNM throughout 2019 is projected at 2.5% of GDP.

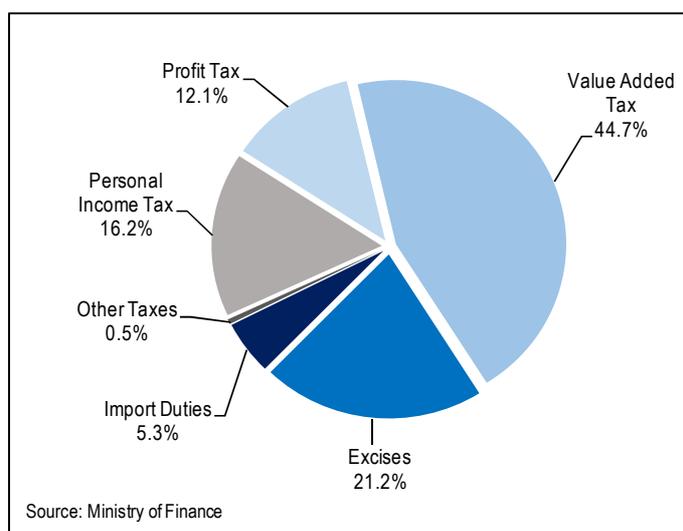
### 3.1.1 Execution of the Core Budget

Total Core Budget revenues amounted to Denar 56,614 million in the period January – June 2019, accounting for 45.0% of the total revenues projected for 2019 in the amount of Denar 125,895 million.

Tax revenues, being the highest revenue item within the total revenues, in this period, were collected in the amount of Denar 53,832 million, i.e. 45.3% of the annual projections, while non-tax and capital revenues were collected in the amount of Denar 2,782 million or 40.0% of the revenues projected for the whole year.

Structure of collected tax revenues showed that VAT revenues accounted for the most with Denar 24,068 million or 44.7% of the total tax revenues (Chart 9), followed by revenues on the basis of excise duties collected in the amount of Denar 11,406 million, PIT revenues collected in the amount of Denar 8,702 million, revenues on the basis of profit tax in the amount of Denar 6,535 million, revenues on the basis of import duties in the amount of Denar 2,855 million and other tax revenues in the amount of Denar 266 million.

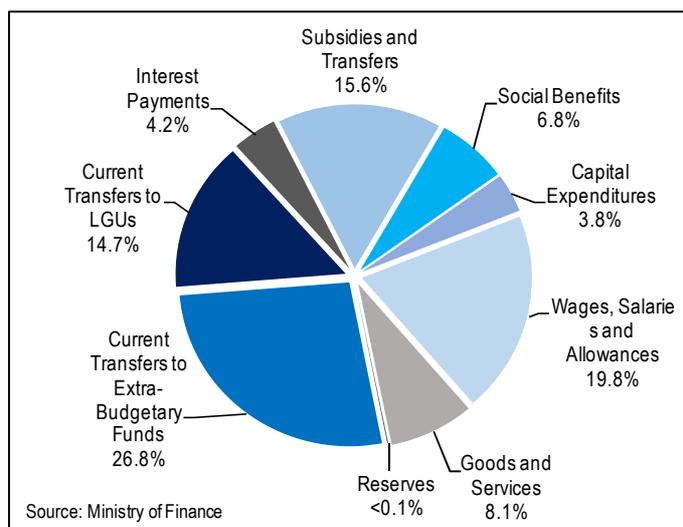
Chart 9: Structure of Collected Tax Revenues, January – June 2019



Total Core Budget expenditures were executed in the amount of Denar 64,424 million in the period January – June 2019 or 46.2% of the total funds projected under the 2019 Core Budget.

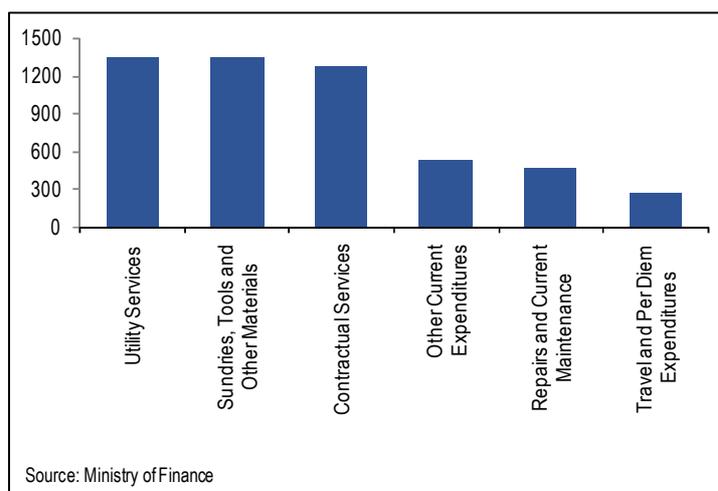
Expenditures on the basis of current transfers to budgetary funds, amounting to Denar 17,272 million accounted for the most in the structure of expenditures executed in this period, followed by expenditures on the basis of wages, salaries and allowances in the amount of Denar 12,788 million, subsidies and transfers in the amount of Denar 10,041 million, expenditures on the basis of current transfers to local government units (LGUs) amounting to Denar 9,471 million, goods and services in the amount of Denar 5,219 million, social benefits amounting to Denar 4,387 million, expenditures related to interest payments in the amount of Denar 2,728 million and capital expenditures in the amount of Denar 2,468 million. Chart 10 shows their percentage share in the total expenditures.

Chart 10: Structure of Executed Expenditures according to Economic Classification, January – June 2019



Out of the total projected funds for wages and allowances in 2019 Core Budget, 48.2% were executed in the analyzed period, while execution of expenditures for the "goods and services" category accounted for 42.1%. Chart 11 shows disaggregated data on executed expenditures on the basis of goods and services.

Chart 11: Expenditures for Goods and Services, January – June 2019 (Denar million)



Current transfers to budgetary funds in the first half of the year accounted for 51.4% of the annual projections. Within this category, transfers to Pension and Disability Insurance Fund of the Republic of North Macedonia (PDIFRNM) accounted for the most - 85.0%, while the remaining funds were transferred to the Health Insurance Fund.

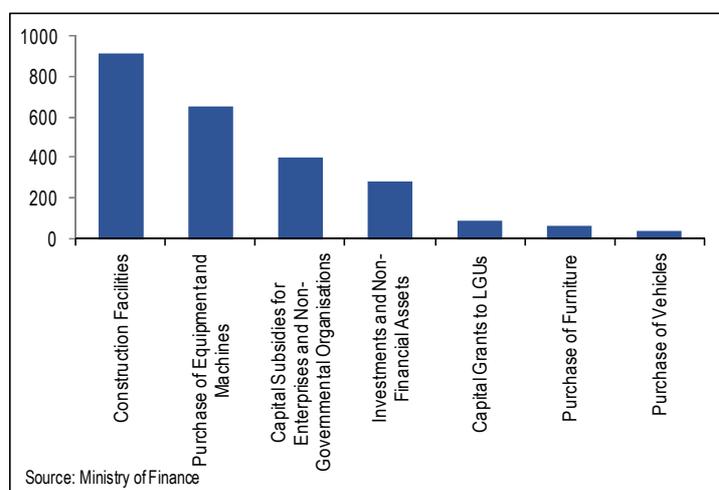
Out of the total funds projected for current transfers to LGUs in 2019, 49.5% were executed in the first half of the year. The highest amount of transfers within this category, i.e. 87.9%, was executed on the basis of block and earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

Execution rate at the "subsidies and transfers" category accounted for 59.6% in the analyzed period. Most of these expenditures, i.e. 61.6%, was paid on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development.

Social benefits in the period January-June accounted for 42.8% of the annual projections.

During the analyzed period, capital expenditures accounted for 21.2% of the funds projected for this purpose in 2019 Core Budget. Chart 12 shows disaggregated data on executed capital expenditures.

Chart 12: Capital Expenditures, January – June 2019 (Denar million)



In the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 8,889 million, while interest-related payments amounted to Denar 2,728 million. Out of the total outflows on the basis of loan repayment, outflow for repayment of principal to domestic creditors amounted to Denar 6,116 million, while Denar 2,773 million was outflows for repayment of principal to non-resident creditors. As for interest-related payments towards domestic creditors, Denar 1,171 million was paid, while Denar 1,557 million was paid to foreign creditors.

### 3.1.2 Funds' Budget Execution

Surplus of the Pension and Disability Insurance Fund amounted to Denar 644 million in the first half of the year. As of June inclusive, revenues and inflows were collected in the amount of Denar 37,562 million, accounting for 51.8% in relation to 2019 projections, while expenditures were executed in the amount of Denar 36,918 million, i.e. 50.9% of the annual projections. Out of the total revenues, Denar 19,808 million was revenues collected on the basis of pension and disability insurance contributions (46.6% of annual projections), Denar 14,680 million was transferred from the Core Budget, Denar 631 million was revenues collected on the basis of excise duties and the remaining Denar 2,443 million was other revenues of the Fund.

As regards PDIF expenditures, pension-related expenditures were executed in the amount of Denar 27,963 million or 49.6% of 2019 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2019. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 4,899 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 3,823 million. Expenditures related to wages, goods and services and other costs amounted to Denar 233 million.

As of June 2019 inclusive, Health Insurance Fund deficit amounted to Denar 272 million, in conditions of revenues collected in the amount of Denar 15,145 million, accounting for 49.2% of the annual projections, and expenditures executed in the amount of Denar 15,417 million, accounting for 50.1% of 2019 projections.

During the analyzed period, revenues collected on the basis of health insurance contributions amounted to Denar 8,369 million or 48.5% of the annual projections. Health insurance contributions for pensioners paid to the PDI Fund amounted to Denar 3,823 million, while health insurance contributions paid by the Employment Agency of the Republic of North Macedonia amounted to Denar 76 million. Transfers from the Core Budget amounted to Denar 2,592 million, revenues on the basis of co-payments were collected in the amount of Denar

225 million, while other revenues were collected in the amount of Denar 60 million. As regards expenditures, funds were spent for primary health care in the amount of Denar 13,062 million, sick leave-related costs amounted to Denar 1,754 million, expenditures for orthopedic aids were executed in the amount of Denar 233 million, while funds spent for medical treatment abroad amounted to Denar 135 million. Expenditures related to wages, goods and services, as well as capital expenditures amounted to Denar 233 million.

In the period January – June 2019, deficit of the Employment Agency of the Republic of North Macedonia amounted to Denar 70 million, in conditions of revenues collected in the amount of Denar 1,249 million (48.8% of 2019 projections) and expenditures executed in the amount of Denar 1,319 million (45.0% in relation to the annual budget). Contributions on the basis of insurance in case of unemployment were collected in the amount of Denar 1,242 million, accounting for 48.9% of the annual projections.

In the first half of the year, Employment Agency expenditures related to unemployment benefits amounted to Denar 763 million, expenditures related to employment of disabled persons amounted to Denar 57 million, expenditures related to active employment measures amounted to Denar 292 million, while expenditures related to contributions paid for pension and health insurance for unemployed amounted to Denar 76 million. Agency's expenditures related to wages, goods and services amounted to Denar 131 million.

### **3.1.3 Budget Execution regarding Self-Revenue Accounts of Budget Users**

Pursuant to the 2019 Budget of the Republic of North Macedonia, budget deficit regarding the self-revenue accounts of the budget users (intended for self-financing activities, loans and donations) is projected in the amount of Denar 3,842 million, while the surplus realized in the analyzed period amounted to Denar 477 million.

As of June 2019 inclusive, total revenues generated on these accounts amounted to Denar 6,812 million (33.8% of 2019 projections), while expenditures were executed in the amount of Denar 6,335 million (26.4% of the annual budget). Within the expenditures, current expenditures were executed in the amount of Denar 3,535 million or 36.0% of the annual projections, while capital expenditures were executed in the amount of Denar 2,800 million or 19.7% of the annual projections.

### **3.1.4 Budget Execution by Budget User<sup>5</sup>**

Review of budget expenditures and outflows for the largest budget users is shown below, the total annual budget of which accounts for 81.0% of the total budget of all budget users (Chart 13).

Ministry of Labour and Social Policy spent Denar 21,848 million in the first half of 2019, or 1.0% more compared to the previous year. Expenditure execution accounted for 49.0% of its total 2019 budget. Thereby, most of the expenditures (71.7%) in this period were allocated for current transfers to budgetary funds, for which Denar 15,664 million was spent or 51.8% of the funds allocated for 2019. The second highest expenditure category were the social benefits, participating with 20.1% in the total expenditures, whereby 42.8% (Denar 4,836 million) of the projected funds was spent for this purpose. Weaker execution of social benefits in the first half of the year is expected to be compensated in the second half, reflecting the increased social assistance in June, in line with the rights envisaged under the new social reform.

In the period January – June 2019, Denar 14,544 million, i.e. 43.5% of the funds envisaged for 2019 was spent through the organizational code Ministry of Finance – Functions of the State<sup>6</sup>. Principal repayment

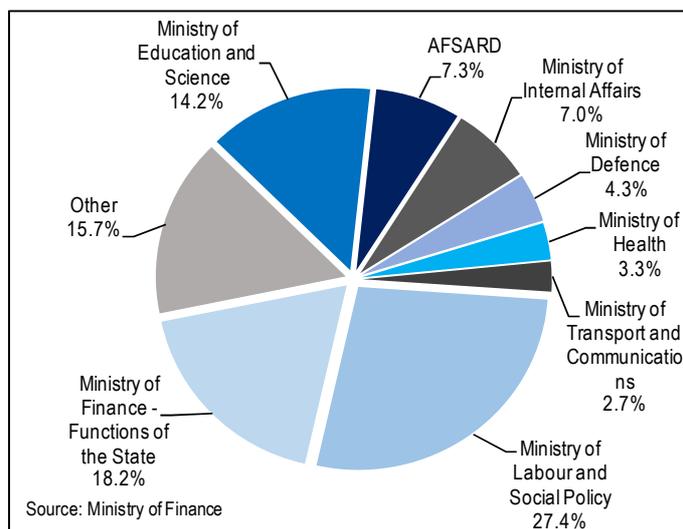
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<sup>5</sup> Detailed data on revenues and expenditures of each budget user are shown in the tables at the following link: <https://finance.gov.mk/mk/node/898>. Data are preliminary and not consolidated, also they include both the inflows and the outflows of funds.

<sup>6</sup> As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components, etc.

(Denar 8,889 million) is the main category in the total expenditures of this budget user, accounting for 61.1% of its total expenditures. As regards expenditures related to interest payments, they accounted for 18.8% of the total expenditures, Denar 2,728 million being spent therefore or accounting for 30.3% of the total budget for this purpose. Third highest expenditure item, participating with 7.9%, was current transfers to LGUs, Denar 1,149 million being spent therefore.

Chart 13. Structure of Executed Expenditures and Outflows by Budget Users, January – June 2019



In the period January – June 2019, Ministry of Education and Science executed budget funds in the amount of Denar 11,297 million (43.2% of the projected ones), being higher by 5.7% compared to the previous year. Current transfers to LGUs accounted for the most of the expenditures (63.2%), Denar 7,137 million being spent therefore or 49.6% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 15.1%, Denar 1,709 million being spent therefore, i.e. 46.4% of the total projected funds. As for goods and services (accounting for 12.5% of the total expenditures), Denar 1,408 million was spent, accounting for 33.7% of the total funds projected for the current year.

In the period January-June 2019, the Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 5,794 million (66.8% of the total funds projected for 2019), the execution being lower by 11.3% compared to the same period in 2018, as a result of the slower payment dynamics of subsidies and transfers in the first half of 2019, which is expected to intensify in the second half of the year.

In the first half of 2019, Ministry of Internal Affairs executed expenditures in the total amount of Denar 5,553 million, accounting for 50.6% of its 2019 budget, i.e. being 8.4% higher compared to the previous year. Wages and allowances were the highest expenditure item, participating with 70.2%, Denar 3,900 million being spent therefore, or accounting for 50.7% of the projected ones. The second highest expenditure category was goods and services, participating with 19.8%, funds in the amount of Denar 1,101 million being executed therefore or 56.2% of the annual projections.

In the first half of 2019, Ministry of Defense executed budget funds in the amount of Denar 3,409 million, accounting for 41.0% of its total budget for this year, being 32.9% higher compared to the previous year, as a result of the higher execution at almost all categories. Expenditures related to wages and allowances accounted for the most with 56.4%, Denar 1,922 million being spent therefore in the period January – June 2019, (accounting for 48.4% of the total funds projected for the current year). Expenditures related to goods and services accounted for 22.1% of total expenditures, with Denar 753 million being spent therefore during the analyzed period, i.e. 38.1% execution of the total projected funds.

In the first half of the year, Ministry of Health executed budget funds in the amount of Denar 2,592 million (15.5% decrease in relation to the same period in the previous year), accounting for 40.0% of its total

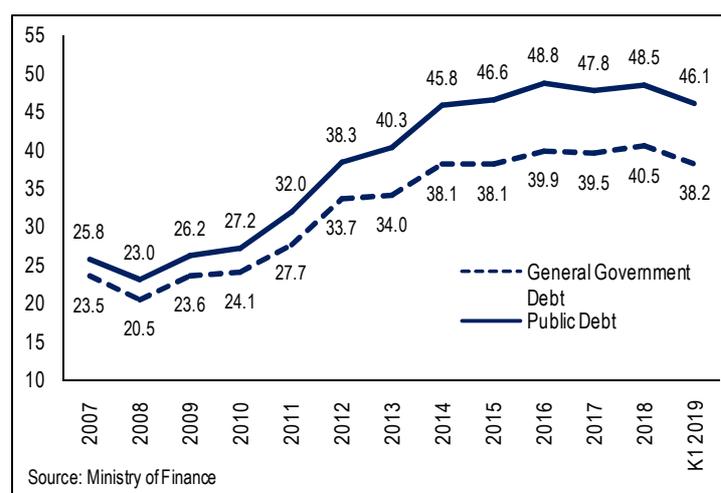
2019 budget. Current transfers to budgetary funds accounted for the most of the expenditures with 53.1%, for which Denar 1,377 million was spent in the period January-June 2019 or 48.0% of the funds projected for 2019. Expenditures related to goods and services were the second highest expenditure category, accounting for 38.2% of the total expenditures, funds in the amount of Denar 990 million being executed therefore in the analyzed period, i.e. 43.1% of total projected ones.

In the period January – June 2019, Ministry of Transport and Communications executed funds in the amount of Denar 2,120 million, being higher by almost twice compared to the same period in the previous year, i.e. 29.1% of its total 2019 budget. Category with the highest share in total expenditures of this budget user are capital expenditures, the execution of which in the first half of 2019 amounted to Denar 1,633 million (77.0% of total expenditures), accounting for 25.9% of its annual budget for this purpose. Compared to the same period in 2018, the execution of capital expenditures was higher by 2.5 times, whereby additional intensification is expected in the second half of the year.

### 3.2. Public Debt Management

General government debt of the Republic of North Macedonia, at the end of Q1 2019, amounted to EUR 4,343.0 million, i.e. 38.2% of the projected GDP for 2019, while public debt<sup>7</sup>, including the general government debt and the guaranteed debt, amounted to EUR 5,242.3 million, i.e. 46.1% of GDP (Chart 14). Thereby, compared to end-2018, share of general government debt in GDP at the end of Q1 2019 was lower by 2.3 p.p., while share of public debt dropped by 2.4 p.p..

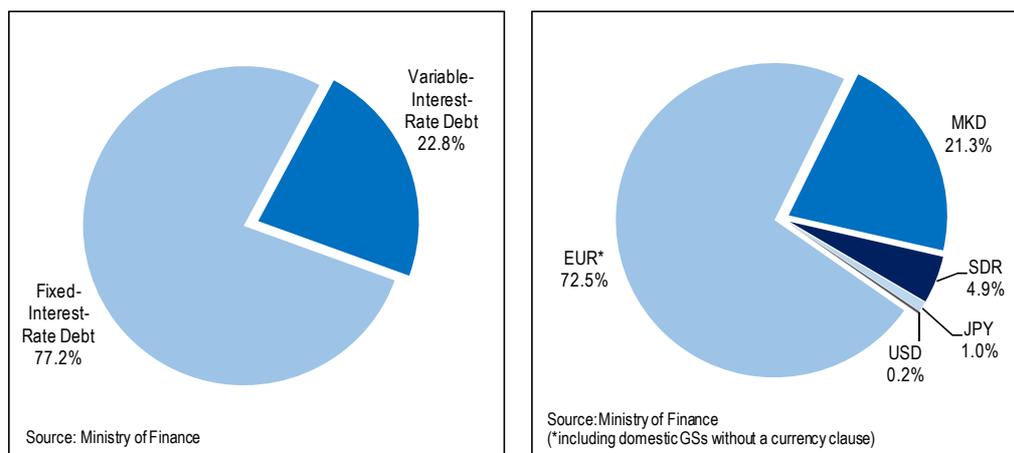
Chart 14: Stock of General Government Debt and Public Debt (% of GDP)



From interest structure point of view as regards the general government debt, fixed-variable interest rate ratio was 77.2:22.8 respectively at the end of Q1 2019 (Chart 15). Analyzed by currency, at the end of Q1 2019, debt denominated in national currency accounted for 21.3% in total public debt portfolio, while share of foreign currency denominated debt was 78.7%. Thereby, share of euro-denominated debt in the total general government debt was 72.5% (including government securities with FX clause), special drawing rights accounted for 4.9%, share of each Japanese Yen-denominated debt and US dollar-denominated debt was 1.0% and 0.2% respectively.

<sup>7</sup> Last amendments to the Law on Public Debt were adopted in May 2019 ("Official Gazette", no. 98/2019), under which amendments, the non-guaranteed debt has been included in the public debt definition. This report shows the scope of the debt in line with the legislation in force as of the end of the first quarter of 2019 inclusive.

Chart 15. Interest (left) and Currency Structure of General Government Debt in Q1 2019



On the domestic market, in the period January-June 2019, Ministry of Finance, issued, on regular basis, government securities with special focus on longer maturities. Issuance of government securities is in line with the Strategy for Denarization with constant growth of issue of domestic currency securities

In the course of the first half of 2019, “Fitch” and “Standard & Poor’s” Credit Rating Agencies revised the country’s credit rating on regular basis.

- In June 2019, “Fitch” upgraded the credit rating of the Republic of North Macedonia for foreign and domestic currency, awarding BB+ with stable outlook. Higher ratings was a result of the political stabilization and improvement of the key international relations, resolution of the dispute with Greece related to the country’s name, signing the NATO Protocol in February, as well as further progress in opening the negotiations for EU accession, which will provide for greater political security and basis for sustainable reforms and macroeconomic stability. Positive features of Macedonian economy, noted in the report are: opening the negotiations with the EU, further political and economic reforms, history of low inflation, stable economic growth and financial stability, as well as the fact noted in the Doing Business Report that North Macedonia is listed higher than BB and BBB category of countries, reflecting open economy and export-oriented technologic-industrial development zones as a basis for stable inflow of foreign direct investments. Weakness of Macedonian economy, noted in the report were: rising public debt, in particular the guaranteed debt of public enterprises and the external debt denominated in foreign currency, as well as high structural unemployment, although it recorded continuous drop;
- in March 2019, „Standard & Poor’s“ Credit Rating Agency affirmed the previously awarded credit rating to the Republic of North Macedonia ‘BB-’ for foreign and local currency, at the same time affirming the stable outlook of the country. The stable outlook reflects „Standard & Poor’s” credit rating on the balance between the risks of public debt trajectory and the relatively modest revenues on one hand, as well as the country’s favourable economic prospects on the other. Positive features of Macedonian economy, noted in the report are: resolution of the name dispute with Greece in January 2019, low level of debt and positive conditions for economic growth, free economic zones as generator of economic growth, well-capitalized and profitable banking sector. Weaknesses of Macedonian economy, noted in the report are relatively low level of revenues in the country, as well as the limited monetary policy as a result of the fixed exchange rate.