REPUBLIC OF MACEDONIA
GOVERNMENT OF THE REPUBLIC OF MACEDONIA

REVISED 2019-2021 FISCAL STRATEGY OF THE REPUBLIC OF MACEDONIA

Skopje, December 2018

CONTENTS

Pursuant to Paragraph 2, Article 16 of the Budget Law („Official Gazette of the Republic of Macedonia", no. 64/2005, 04/2008, 103/2008, 156/2009, 95/2010, 180/2011, 171/2012, 192/2015 and 167/2016), Government of the Republic of Macedonia, at its session held on 14 December 2018, adopted the Revised 2019 - 2021 Fiscal Strategy of the Republic of Macedonia.

Introduction

The definition of medium-term economic and fiscal policy guidelines is the key tool in the overall complex process of budget planning, since they provide fiscal assumptions on which the preparation of the next budgets of the Republic of Macedonia is based. The Revision of the 2019 - 2021 Fiscal Strategy of the Republic of Macedonia is prepared in line with the practice of the developed countries and is necessary because of the changes that took place in the course of 2018 as regards macroeconomic and fiscal parameters.

The Medium-Term Fiscal Strategy is the key document in determining the medium-term fiscal goals of the Government of the Republic of Macedonia and their connection with the strategic priorities of the Government, as well as a tool to monitor the dynamics of revenues and expenditures in relation to the fiscal goals. The medium-term expenditure framework, as part of the Fiscal Strategy, is aimed at integrating the policies with the decisions on allocation of resources, in a multi-year context, thus contributing to better efficiency when using the public finances and adopting better policy decisions. In short, the Medium-term expenditure framework is a strategic allocation of resources towards the achievement of the government priorities.

Further, the public debt management policy sets the framework for the Government of the Republic of Macedonia to act towards prudent public debt management in the medium term. The main principles taken into account when managing the public debt portfolio, i.e. when preparing and implementing the public debt management policy, are the following:

- Determining the optimal structure of debt portfolio and its harmonisation with the national macroeconomic policy;
- Aligning the debt portfolio-related costs with the costs set in the budget for each year separately and in the medium term, and
- Limiting and eliminating the effect of the risks on public debt sustainability in both the medium and the long run.

Related to this, the annual growth rate of total budget expenditures of the central government budget (Budget of the Republic of Macedonia) will gradually drop from 7.1% in 2018 to 3.6% in 2021. Combined with the expected revenue collection, this will result a gradual narrowing of the overall budget deficit from 2.7% of GDP in 2018 to 2.5% in 2019, 2.3% in 202 and 2% of GDP in 2021. The primary budget deficit will also drop from 1.6% of GDP in 2018 to 1.2% in 2019, further declining to 1% and 0.7% respectively in 2020 and 2021. The disciplined fiscal policy will ensure a stable public debt path, reaching, in the medium run, 54.5% of GDP in 2020 as a result of the intensified capital projects, and then dropping to 53.2% of GDP in 2021. Consequently, the public debt will be significantly below the medium- and long-run limit set at 60% of GDP.

1. Macroeconomic Projections

1.1 International Economic Trends and Forecasts[1]

Global growth is forecast to be 3.7% in 2018, and to moderately slow down to 3.5% in 2019 and 2020. Compared to spring forecasts, they are revised downwards (by 0.2 p.p. in 2018 and 0.4 p.p. in 2019), largely due to a deterioration in the growth outlook for a number of emerging market economies, which have been hit by tightening financial conditions, geopolitical tensions and domestic policy uncertainty. Rising oil process cast an additional shadow on the outlook for oil importers, but imply an improvement for the oil-exporting countries. US tariff measures against China are expected to dent Chinese GDP growth, although their impact could be partly offset by domestic economic policy measures. However, global growth is expected to remain stable as a result of the pro-cyclical fiscal stimulus and strong labour market in the US economy. In the coming two years, GDP

[1] The analysis in this section is based on the Autumn report of the European Commission "European Economic Forecast", published in November 2018.

growth in the advanced economies (excluding the EU) is expected to moderate, as the economic cycle matures and less support comes from monetary and fiscal policies. In the US, the positive effect of the fiscal policy in 2019 is set to be offset by the negative effect of higher tariffs, and GDP growth is expected to be moderately weaker than previously expected.

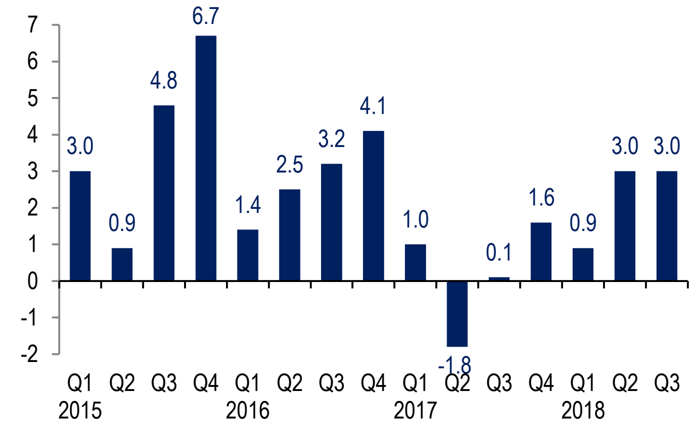
EU growth is forecast at 2.1% in 2018, and it is expected to decline to 1.9% in 2019 and 1.8% in 2020. In conditions of weakening of global growth, EU's domestic growth drivers are expected to be sufficient to allow activity to continue growing and unemployment falling. The improving labour market, stronger wage growth and expansionary fiscal measures in some Member States should help to sustain consumption growth next year. Investments are expected to be supported by the favourable financing conditions, despite the gradual normalization of monetary policy. The outlook, however, is worsened by the presence of a number of interrelated downside risks, such as the rising trade tensions and uncertainty of the future relations between the EU and the United Kingdom following Brexit.

1.2 Economic Trends in the Republic of Macedonia

As regards domestic economy, following the sluggish growth at the beginning of the year, reflecting the trends in the construction sector, i.e. the slower dynamics of execution of public capital expenditures, positive movements were recorded at the key sectors of the economy in the second and the third quarter. Activity in the industry continued to grow with a stronger intensity, whereby traditional activities also had a positive contribution. Growth in the services sector also intensified, with a considerable contribution of trade, whereas the construction sector experienced a significantly slower decline.

Economic activity in the second and the third quarter in 2018 grew by 3.0% on annual basis, following the 0.9% growth in the first quarter, resulting in an average growth of 2.3% in the first three quarters of 2018 (Figure 1).

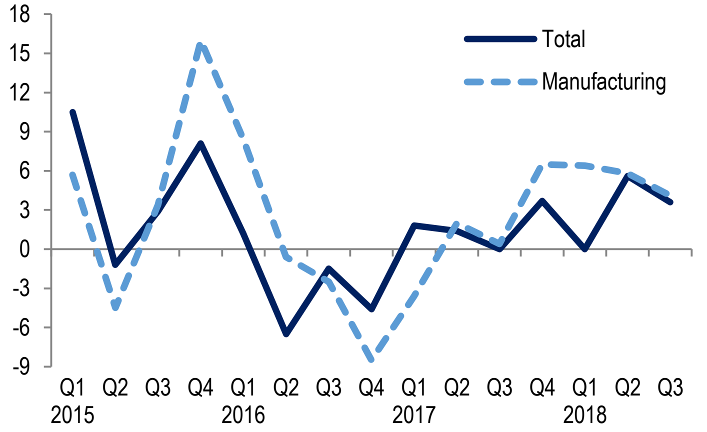
Figure 1. Year-on-year real GDP growth (%)



Source: State Statistical Office

Analysed by sectors, economic growth in this period was a result of the positive performance in the services and industrial sectors, while construction and agricultural sectors had negative contribution to growth. Services sector registered real growth of around 4.0%, mostly as a result of intensified activity in the Trade, transport and catering sector by 9.7%. Industrial sector experienced real growth of 3.1%, as a result of growth in Manufacturing of 5.4% (Figure 2). According to high-frequency data, the following had a more significant contribution to growth in Manufacturing: Manufacture of machinery and equipment (16.3%), Manufacture of mother vehicles (29.1%), Manufacture of electrical equipment (20.6%), Manufacture of fabricated metal products (27.6%), Manufacture of furniture (25.3%), Manufacture of food products (2.9%), etc. The decline in the Agricultural sector continued with a weaker dynamics compared to the previous year, equalling 7.4%. During this period, activity in the Construction sector experienced 7.6% decline in real terms, mostly as a result of the lower construction activity in civil engineering.

Figure 2. Industrial sector (year-on-year growth rate, %)

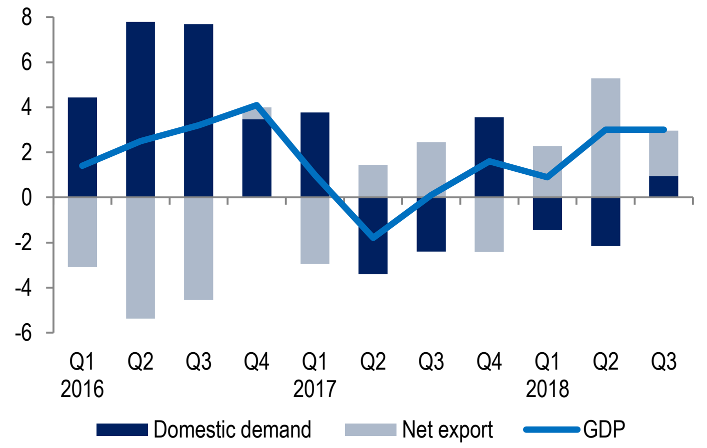


Source: State Statistical Office

Analysed according to the expenditure side of GDP, economic activity growth in the first three quarters in 2018 was a result of consumption growth, as well as the positive contribution of net exports to economic growth. Exports of goods and services grew by almost 13.0% in real terms, amid favourable trends in foreign demand, mainly as a result of exports from capacities in the free economic zones, and also supported by the solid performance of part of the traditional export segments, such as metal and food industry. Imports of goods and services experienced significantly lower growth compared to exports, i.e. 5.7% growth in real terms, resulting in a significant contribution of net exports to economic growth.

Following the negative contribution in the first two quarters, domestic demand had a positive effect on economic growth in the third quarter, amid stronger growth of consumption and more moderate decline of investment demand (Figure 3). Consumption experienced 3.1% real growth in in the first three quarters in 2018, continuing to support the economic activity. Private consumption grew by 2.3% in real terms, mostly as a result of the increase of household disposable income, in conditions of increased employment and wages in the economy, also supported by increased crediting to households. Public consumption grew by 6.7% in real terms. Gross investments in this period dropped by 11.3% in real terms, due to the decline of investments in construction works, in circumstances of lower execution of public capital expenditures, while the strong inflow of FDIs and increased production and import of capital goods indicate favourable trends in private investments.

Figure 3. Contribution of expenditure components to GDP growth (percentage points)

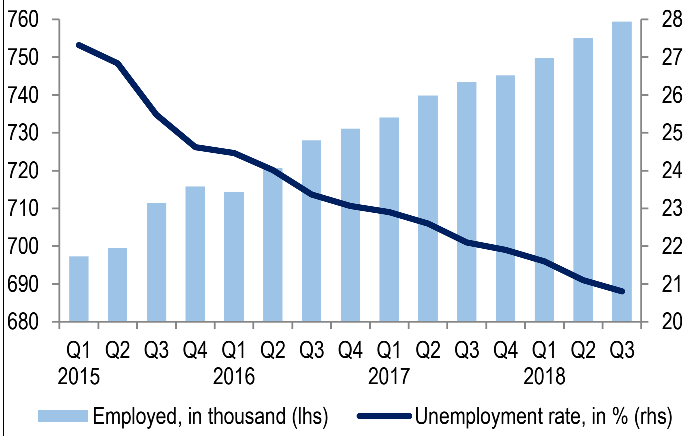


Source: State Statistical Office and calculations of the Ministry of Finance

Positive trends on the labour market continued in 2018 (Figure 4). According to the Labour Force Survey, the unemployment rate in the third quarter declined to 20.8%, i.e. by 1.3 percentage points (p.p.) compared to the same quarter in 2017, whereby youth unemployment and unemployment of the prime age group (25 - 49 years of age) also fell. The employment rate reached 45.1%, being 0.9 p.p. higher in relation to the same quarter in 2017. The number of employees in the first three quarters in 2018 increased by 2.1%, i.e. by around

15.7 thousand people, compared to the same period in 2017, whereby increase of employment was registered in all sectors, being the highest in industry, and particularly in manufacturing.

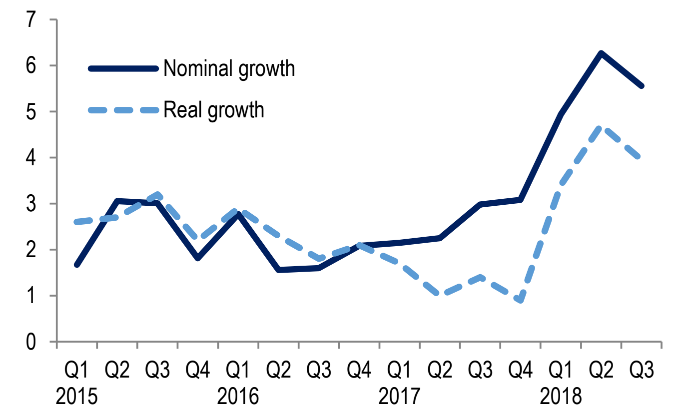
Figure 4. Number of employees and unemployment rate



Source: State Statistical Office

Average net wage in the period January - September 2018 grew by 5.6% in nominal terms and by 4.0% in real terms (year-on-year), thus accelerating in relation to the previous years (Figure 5). The growth of average wage was a result of the increased wages in almost all sectors, whereby the highest increase was registered in industry (mining and manufacturing), ICT and catering.

Figure 5. Growth of average net wage (%)



Source: State Statistical Office

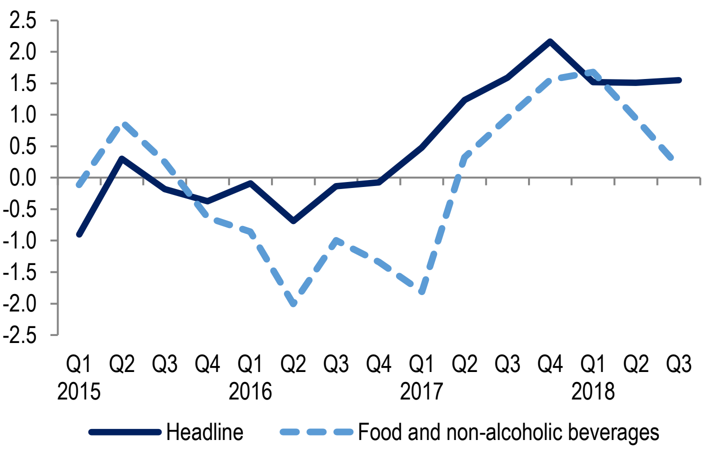
Developments in the current account of the balance of payments in the first three quarters in 2018 resulted in a surplus of around EUR 90 million, amounting to 0.9% of projected GDP in 2018, as opposed to the deficit of 0.4% of GDP in the same period in 2017. Improvements on the current account balance reflect the reduced trade deficit, increased surplus on the services account and higher transfers from abroad.

Foreign direct investments (FDI) in the country amounted to EUR 316 million in the first three quarters in 2018, i.e. 3.0% of projected GDP in 2018, being higher by EUR 134 million compared to total FDI in 2017, when they equalled 1.8% of GDP. Most FDIs in this period (70%) were reinvested profits and equity.

Gross foreign exchange reserves equalled EUR 2.7 billion at the end of September 2018, providing for 4.4-month coverage of imports of goods and services in the previous 12-months, thus being at an adequate level to manage possible shocks.

The inflation rate in the period January – November 2018 equalled 1.5%. The quarterly dynamics showed some inflation slowdown in the first quarter and stabilization in the following period of the year, in conditions of a downward trend of food price growth, intensified growth of prices of oil products, in line with the trends on the global market, and low and stable core inflation[2].

Figure 6. Year-on-year inflation rate (%)



Source: State Statistical Office

In the course of 2018, the National Bank of the Republic of Macedonia (NBRM) reduced the interest rate on Central bank bills on three occasions (by 0.25 p.p. each), and currently it equals 2.5%. The accommodative monetary policy reflects continuous favourable trends on the foreign exchange market, amid a solid external position and stable expectations of the economic agents. Favourable movements were also registered at the banks' deposit base, whereby total deposits in the banking sector in October 2018 were higher by 11.4% year-on-year, mostly as a result of increased Denar deposits. In October 2018, credit activity surged by 8.2% on annual basis, in conditions of increased household credits by 10.5% and corporate credits by 6.0%.

1.3 Medium-Term Macroeconomic Projections

Fiscal policy of the Republic of Macedonia is aimed at developing the economy and raising the living standard of citizens, by supporting domestic enterprises, above all small- and medium-sized enterprises, stimulating investments, increasing employment through the active employment measures, increasing the level of wages, as well as strengthening the social protection system.

Positive movements in the second and the third quarter in 2018 were within the expectations. In the following quarter, in conditions of intensified execution of public capital expenditures and continuous positive signals related to private investments, as well as further high growth of exports and the positive contribution of consumption to growth, intensification of economic growth is expected, i.e. growth of 2.8% for the entire year.

The increase of wages and employment in the private sector, supported by the government measures, accompanied by the expectations for low and stable inflation in the country, will contribute to increased private consumption. Continuous solid exports by the new production capacities, as well as the recovery of the traditional exporting sectors as a result of the strengthened economic activity in the trading partner countries, will contribute to increased exports from Macedonia and greater utilisation of the industrial capacities. The projected increase of public investments and the better investment climate are expected to contribute to increased investment demand in the following medium-term period.

Therefore, real GDP growth is expected to increase to 3.2% in 2019, and to further intensify in the following two years, i.e. it is expected to reach 4% in 2020 and 5% in 2021 (Table 1). Private consumption is projected to significantly contribute to economic growth in this medium-term period, with a 2.6% growth in real terms (Figure 7). Growth of private consumption is related to the expected growth of employment in the private sector, the gradual increase of wages, as well as the measures aimed at strengthening the social protection, which will result in increase of the household disposable income. Private consumption is expected to also be supported by the projected increase of credits to households. The real growth of public consumption in this period is projected at 1.0% in average.

[2] Inflation without the food and energy components.

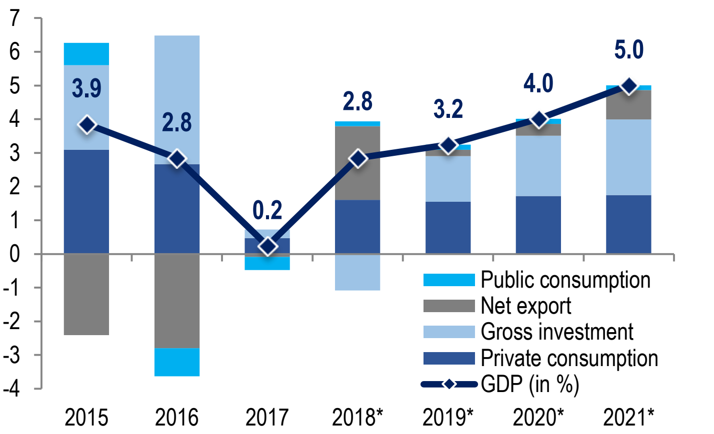
Table 1. Comparison of GDP growth and inflation projections for Macedonia

Institution	Real GDP growth (%)				Inflation rate (%)			
	2018	2019	2020	2021	2018	2019	2020	2021
IMF	2.0	2.8	/	/	1.8	2.0	2.0	2.0
World Bank	2.5	2.9	3.2	/	1.6	2.0	2.0	/
EBRD	2.0	3.0	/	/	/	/	/	/
European Comission	2.1	2.8	3.1	/	1.6	2.0	2.1	/
Vienna Institute for International Economic Studies	2.9	2.8	3.1	/	1.5	2.0	2.0	/
NBRM	2.3	3.5	3.8	4.0	1.6	2.0	2.0	2.0
Ministry of Finance	2.8	3.2	4.0	5.0	1.7	2.0	2.0	2.2

Source: IMF (Article IV Mission, November 2018 and World Economic Outlook Database, October 2018), World Bank (Western Balkans Regular Economic Report No. 14, October 2018), EBRD (Regional Economic Prospects, November 2018), European Comission (European Economic Forecast, November 2018), WIIW The Vienna Institute for International Economic Studies (Forecast Report, November 2018) and NBRM (November 2018).

The growth of gross investments in the 2019 - 2021 period is projected at around 5.5% in real terms on average. Planned investments of the public sector, as well as the support to investment activity of the domestic and the foreign companies, are expected to have positive contribution to investment growth. The confidence of the economic agents, the improved business climate and the government measures for stimulating investments are a significant factor to attaining the projected growth of gross-investments (Figure 7).

Figure 7. GDP growth (in %) and contribution by expenditure components (in percentage points)



Source: State Statistical Office and projections of the Ministry of Finance (*)

Net exports in the following medium term are expected to have a positive contribution to the growth of the economic activity. Exports of goods and services are envisaged to have a almost 9% real growth on average, as a result of the expectations for increased export potential of the country, in conditions of expected increase and expansion of the export capacities in the country, as well as the expected growth of foreign demand, especially for higher value-added products, the share of which in the domestic industry is increasing. Favourable effects on exports are also expected from the envisaged increase of prices of base metals on the medium term. Projected growth of domestic demand and export activity provides for growth of imports of goods and services which, in this period, are expected to have an almost 7.0% real growth on average.

Table 2. Actual and projected main macroeconomic indicators for Macedonia

	2017	2018*	2019*	2020*	2021*
GDP, real growth rate (%)	0.2	2.8	3.2	4.0	5.0
Inflation rate (average)	1.4	1.7	2.0	2.0	2.2
Export of goods (nominal growth, %)	14.1	11.2	9.5	10.1	10.8
Import of goods (nominal growth, %)	10.5	7.1	8.1	8.7	9.0
Trade balance (% of GDP)	-18.2	-16.3	-16.0	-15.6	-14.9
Current account balance (% of GDP)	-1.0	-1.0	-1.2	-1.3	-1.3
Net wage - nominal growth (%)	2.6	5.8	4.5	4.4	3.7
Unemployment rate (average)	22.4	21.2	20.1	19.1	18.1
Employment rate (average)	44.1	44.9	45.8	46.7	47.8

Source: State Statistical Office and forecast of the Ministry of Finance (*)

The projected increase of the economic activity in the coming medium-term period is expected to be accompanied by employment increase, boosted by the active employment measures and programs, the support to the domestic and the foreign companies for job creation, as well as other measures aimed at unemployment reduction. According to the projections, the number of employed persons is expected to increase by 2.3% on average annually in the period 2019 - 2021. The increase of demand in this period is expected to also reflect on the labour supply, projected to increase by 1% annually on average. Such developments in the labour market will provide for the average unemployment rate to drop to around 18.0% in 2021. The increase of the average net-wage in this period is expected to be 4.2% annually in nominal terms (Table 2).

In the period 2019-2021, the inflation rate is expected to be low and stable. Inflation dynamics will be influenced by the trends of global prices of primary products, and partially by trends of the economic activity in the national economy. The inflation rate in 2019 and 2020 is expected to be 2%, while it is projected at 2.2% in 2021.

BOP current account deficit is expected to remain relatively low and to be around 1.3% of GDP in the period 2019 - 2021. The current account deficit will be financed with the expected FDI inflow, which will result in keeping the foreign reserves at an adequate level. According to the monetary policy, the stable Denar exchange rate in relation to the euro will be retained in this period, aimed at maintaining price stability, as the ultimate goal of macroeconomic policy.

Baseline macroeconomic projections are accompanied by certain risks, which are related to both the international and the domestic environment. As regards the risks related to the international environment, they are mainly associated with the economic trends and the growth dynamics of the EU economy, as the main trading partner of Macedonia, as well as the deteriorated prospects for growth of the global trade and the higher oil prices, worsening financial conditions, etc. An additional risk is also the weaker growth than the expected or the possible decline of prices of base metals on the global market.

As regards the domestic environment, risks are significantly reduced in circumstances of stabilisation of the political situation in the country and prospects for increased growth of the domestic economy. Related to this, the projected growth of the domestic demand over the medium term, which is expected to significantly contribute to boosting the economic activity, is related to risks, which are assessed as moderate and refer primarily to the increase of gross investments, i.e. the realisation of infrastructure projects, as well as the effects from the support of the investment activity of domestic and foreign companies on the economy. Further, improved Euro-Atlantic perspectives point to potential upside risks to the baseline macroeconomic forecast.

2. Fiscal Projections

2.1 Central government budget (Budget of the Republic of Macedonia)

2.1.1 Revenues and Expenditures in the Period January - November 2018

In the period January - November 2018, total central government budget revenues (Table 3) were collected in the amount of Denar 169,434 million, i.e. around 88% of the 2018 Budget[3], and their collection was

[3] In line with the Modifications and amendments to the 2018 Budget of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia", no. 207/18), i.e. the Supplement Budget.

higher by 5.6% compared to the revenues collected in the same period last year. Denar 102,904 million out of this amount was tax revenues, being higher by Denar 7,858 million or by 8.3% compared to last year. VAT revenues were collected in the amount of Denar 44,859 million, and they dominate the structure of tax revenues with 43.6%. Personal income tax revenues were collected in the amount of Denar 14,393 million, corporate income tax revenues were collected in the amount of Denar 13,325 million, while excise revenue collection amounted to Denar 23,153 million. The performance of all types of tax revenues was higher compared to the analysed period last year.

Revenues collected on the basis of social contributions amounted to Denar 50,843 million, being by Denar 3,660 million or by 7.8% higher in relation to the respective period in 2017. Denar 34,151 million was collected on the basis of pension insurance, while revenues collected on the basis of health insurance contributions amounted to Denar 14,511 million.

Non-tax revenues were collected in the amount of Denar 11,046 million in the period January - November 2018. The largest share reflects non-tax revenues of budget users on their special revenue accounts, collected in the amount of Denar 5,964 million. Capital revenues were collected in the amount of Denar 2,034 million, while budget users generated Denar 2,552 million on the basis of donations from international multilateral and bilateral cooperation.

In the period January - November 2018, total central government budget expenditures were executed in the amount of Denar 178,936 million, i.e. execution was higher by Denar 6,202 million or by 3.6% in relation to the same period last year. All liabilities of the budget users, legal rights of the citizens and the due liabilities towards domestic and foreign creditors were settled on time and on regular basis during this period.

Current expenditures were executed in the amount of Denar 170,253 million. During this period, Denar 24,092 million was paid for wages and allowances to the employees of the budget users, while expenditures related to goods and services were executed in the amount of 12,384 million.

Transfers-related expenditures accounted for the most of the current expenditures, amounting to Denar 126,413 million in this period. Government liabilities on the basis of payments related to exercising the rights to guaranteed social protection of the citizens (pecuniary allowances to vulnerable categories of citizens, as well as child allowance and parenting payments) were settled on regular basis, amounting to Denar 7,788 million. Denar 49,623 million were dedicated for regular payment of pensions. With respect to financing health services and benefits, Denar 26,311 million was paid, while Denar 1,744 million was allocated for payment of unemployment benefits through the Employment Agency. Denar 14,514 million was transferred from the central government budget (Budget of the Republic of Macedonia) to the municipalities, as block grants for financing the transferred powers, as well as earmarked grants for financing the operating costs in local public institutions. In addition, Denar 1,997 million was transferred on the basis of VAT revenues. During the analysed period, agricultural subsidies were paid on continuous basis and in a timely manner, aimed at improving the quality and the competitiveness of the sector. In the course of this period, funds in the amount of Denar 3,032 million were transferred to municipalities in accordance with the Law on Financial Support to Local Government Units and Spending Units Established by Local Government Units for Financing of Unpaid Obligations that are Due for Payment. Denar 7,364 million was allocated for regular servicing of liabilities on the basis of interest, according to the repayment schedules on domestic and foreign borrowing. Denar 4,710 million out of this amount was allocated for payment of interest on foreign borrowing. Denar 26,709 million was spent for regular servicing of obligations on the basis of repayment of principal.

In the period January - November 2018, capital expenditures were executed in the amount of Denar 8,683 million.

During this period, central government budget deficit amounted to Denar 9,502 million, amounting to 1.44% of the GDP projected for 2018.

Table 3. 2018 Central Government Budget (Budget of the Republic of Macedonia) and its execution in the period January - November 2018

	Budget 2018* (denar million)	Execution January – November 2018 (denar million)	Execution January – November 2018 / Budget 2018	Execution January – November 2018 / January – November 2017 (%)
Total revenues	**192,484**	**169,434**	**88.0%**	**5.6%**
Tax revenues and contributions	**170,781**	**153,747**	**90.0%**	**8.1%**
Tax revenues	114,566	102,904	89.8%	8.3%
Contributions	56,215	50,843	90.4%	7.8%
Non-tax revenues	**14,929**	**11,046**	**74.0%**	**-9.8%**
Capital revenues	**1,881**	**2,034**	**108.1%**	**67.8%**
Donations	**4,893**	**2,607**	**53.3%**	**-44.7%**
Total expenditures	**210,536**	**178,936**	**85.0%**	**3.6%**
Current expenditures	**192,017**	**170,253**	**88.7%**	**7.1%**
Wages and allowances	26,827	24,092	89.8%	0.5%
Goods and services	17,627	12,384	70.3%	-5.0%
Transfers to LGUs	18,111	16,511	91.2%	6.8%
Subsidies and transfers	20,981	18,009	85.8%	40.1%
Social transfers	100,683	91,893	91.3%	6.5%
Interests	7,787	7,364	94.6%	1.1%
Capital expenditures	**18,519**	**8,683**	**46.9%**	**-37.2%**
Deficit	**-18,052**	**-9,502**	**52.6%**	**-23.0%**
Deficit financing	**18,052**	**9,502**		
Inflows	**46,487**	**36,211**		
Domestic sources	17,676	15,496		
External sources	33,108	32,104		
Deposits ("-" is accumulation on the account)	-4,297	-11,389		
Outflows	**28,435**	**26,709**		
Repayment upon domestic borrowing	12,217	11,153		
Repayment upon foreign borrowing	16,218	15,556		

Source: Ministry of Finance

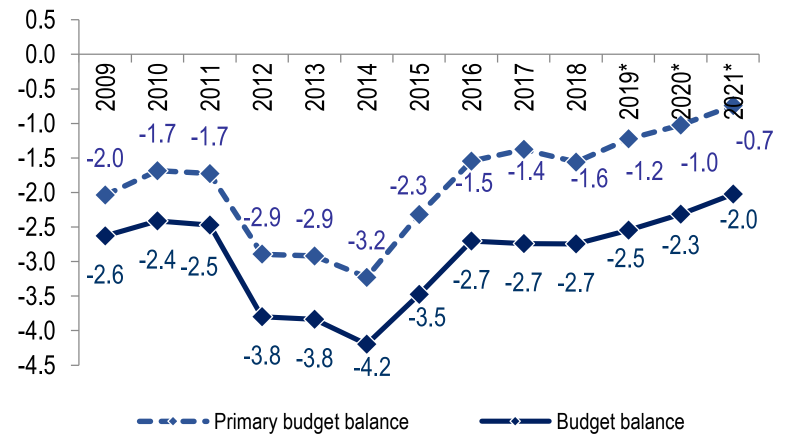
2.1.2 Medium-Term Framework of the Central Government Budget (Budget of the Republic of Macedonia)

Fiscal policy in the period 2019 - 2021 will feature further strengthening of Budget management and fiscal discipline, which will result in maintaining macroeconomic stability, gradual fiscal consolidation and maintaining low budget deficit (Table 4).

The focus will be placed on creating a favourable business climate, supporting domestic companies and innovative activity, as well as supporting the economy with significant investments in infrastructure projects. Further modernisation and strengthening of revenue collection, by strengthening the institutional capacity of the tax administration, as well as enhancing the control and efficient budget spending, are also one of the priorities in the period to come.

Related to this, the annual growth rate of total budget expenditures of the central government (Budget of the Republic of Macedonia) will gradually drop from 7.1% in 2018 to 3.6% in 2021. In conditions of prudent public financial management as per the planned policies, fiscal policy in the coming period will provide for a gradual decline of the level of overall budget deficit from 2.7% of GDP in 2018 to 2.5% of GDP in 2019, 2.3% of GDP in 2020 and 2% of GDP in 2021. Furthermore, the primary budget deficit (total budget deficit without the interest-related costs) will also fall from 1.6% of GDP in 2018, to 1.2% of GDP in 2019, 1% and 0.7% respectively in 2019 and 2020 (Figure 6).

Figure 6. Overall and primary budget deficit (% of GDP)



Source: Ministry of Finance and projections of the Ministry of Finance (*)

Projections of the deficit and the general government debt for Macedonia by the international financial institutions are similar to the ones contained in this Fiscal Strategy (Table 4).

Table 4. Comparison of Projections on Budget Deficit and General Government Debt in Macedonia

	Budget balance (% of GDP)				General government debt (% of GDP)			
Institution	2018	2019	2020	2021	2018	2019	2020	2021
IMF	-2.9	-2.7	-2.7	-2.7	41.5	43.6	43.7	43.8
World Bank	-2.6	-2.6	-2.6	/	42.4	43.5	44.2	/
European Commission	-2.8	-2.6	-2.3	/	42.2	44.5	45.7	/
Ministry of Finance	-2.7	-2.5	-2.3	-2.0	41.0	43.3	43.2	41.4

Source: IMF (World Economic Outlook Database, October 2018), World Bank (Western Balkans Regular Economic Report No. 14, October 2018) and European Commission (European Economic Forecast, November 2018).

Total revenues of the central government (Budget of the Republic of Macedonia) for the period 2018-2021 are projected to around 29.5% of GDP. Revenue projections are based upon the anticipated tax reforms as regards personal income tax and social contributions, as well as the existing legal solutions regarding the other public duties. Tax reform, envisaged to start implementing from 2019, as per the medium-term projections, is expected to provide for a fiscal effect of around Denar 1.5 billion per year. This reform envisages introduction of a moderate progressive taxation as regards the personal income tax, i.e. an additional marginal tax rate for persons with the highest income, in line with the developed European tax systems. The goal of the reform is, above all, to reduce inequality in the society, as well as to ensure additional budget funds to be used for higher public investments and to improve the quality of the services in education, health and social protection sectors.

Tax revenues account for 58.5% of the projected revenues, followed by revenues on the basis of social contributions accounting for 29.8%, non-tax revenues and capital revenues accounting for 9%, while the rest of the revenues are expected to be generated from IPA Funds and other donations. With respect to tax revenues, most revenues will be generated on the basis of VAT, personal income tax and excises.

In the next medium-term period, projections for social contributions, which are genuine revenues of the Pension and Disability Insurance Fund, Health Insurance Fund and the Employment Agency, are based on a slight increase of the mandatory social and health insurance rates, as well as the expected positive economic trends, which will respectively reflect on the growth rates of both employment and wages.

In order to gradually stabilize the pension system and ensure its sustainability, it is planned for social contribution rates to be increased, in particular, pension and disability insurance contribution rate by 0.4 p.p. and health insurance contribution rate by 0.1 p.p. in the period 2019 - 2020. The positive effects from the increased contributions on the budgets of the respective funds are around Denar 1.1 billion per year.

Non-tax revenues in the next medium-term period account for around 8.1% of the total revenues, wherein revenues on the basis of administrative fees and other non-tax revenues, which the budget users generate on their own accounts, account for the highest share.

In the coming period, budget revenue projections with regard to foreign donations include the donations the budget users will realise for specific projects, as well as disbursements from the EU pre-accession funds.

Table 5. 2017 - 2021 Central Government Budget (Budget of the Republic of Macedonia), Denar million

	Execution 2017	Budget 2018	2019*	2020*	2021*
Total revenues	**179,673**	**192,484**	**210,848**	**219,726**	**229,276**
Tax revenues and contributions	**157,537**	**170,781**	**184,201**	**193,587**	**203,776**
Tax revenues	104,647	114,566	121,885	127,852	134,092
Contributions	52,890	56,215	62,316	65,735	69,684
Non-tax revenues	**13,396**	**14,929**	**18,521**	**18,014**	**17,375**
Capital revenues	**1,316**	**1,881**	**2,026**	**2,025**	**2,025**
Donations	**7,424**	**4,893**	**6,100**	**6,100**	**6,100**
Total expenditures	**196,561**	**210,536**	**228,548**	**236,888**	**245,381**
Current expenditures	**176,698**	**192,017**	**202,577**	**208,955**	**215,278**
Wages and allowances	26,204	26,827	28,388	29,473	29,473
Goods and services	15,344	17,627	19,643	19,712	19,722
Transfers to LGUs	17,014	18,113	19,119	20,051	21,107
Subsidies and transfers	15,058	20,931	18,568	18,983	19,683
Social transfers	94,690	100,733	107,679	111,152	115,109
Interest payments	8,388	7,787	9,180	9,584	10,184
Domestic	2,845	2,830	3,055	3,251	3,477
Foreign	5,543	4,957	6,125	6,333	6,707
Capital expenditures	**19,863**	**18,519**	**25,971**	**27,933**	**30,103**
Budget Balance	**-16,888**	**-18,052**	**-17,700**	**-17,162**	**-16,105**
Primary budget balance	**-8,500**	**-10,265**	**-8,520**	**-7,578**	**-5,921**
Total revenues, % of GDP	**29.0**	**29.3**	**30.3**	**29.7**	**28.8**
Total expenditures, % of GDP	**31.7**	**32.0**	**32.9**	**32.0**	**30.8**
Budget balance, % of GDP	**-2.7**	**-2.7**	**-2.5**	**-2.3**	**-2.0**
Primary budget balance, % of GDP	**-1.4**	**-1.6**	**-1.2**	**-1.0**	**-0.7**

Source: Ministry of Finance and projections of the Ministry of Finance (*)

The expenditure side of the central government budget (Budget of the Republic of Macedonia) in the next period is fully created in the function of achieving the strategic priorities of the Macedonian Government, i.e. accelerating the economic growth and the EU and NATO integration processes. The average share of expenditures in the central government budget in the period 2018-2021 is around 31.9% of GDP. Expenditure projections in the budget for the next medium-term period are prepared on the basis of three key foundations:

- Harmonisation of the revenue projections with the planned economic activities;
- Total budget expenditure projections ensure continuous fiscal consolidation, and
- Projected expenditures provide for regular and smooth fulfilment of all legal obligations.

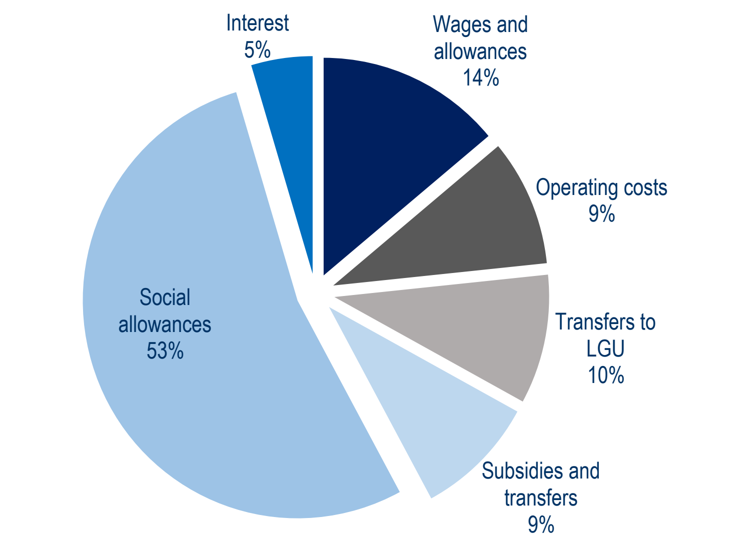
When projecting the current expenditures for the next period (Figure 7), following assumptions were taken into account:

- As regards expenditures related to wages and allowances, continuation of strict control over new employments and gradual increase of wages in certain sectors in line with the fiscal possibilities. Within these funds, wage increase of 5% is envisaged for the employees at the budget users in the last quarter of 2019, i.e. starting with the payment of the September wage in 2019. Such an increase is proposed to improve living standards of the employees and increase their motivation for professional, quality and complete performance of the working tasks, especially in the phase of conducting the negotiations on EU and NATO integration.
- Timely payment of pensions and social benefits, for the purpose of improving the well-being of the beneficiaries of these rights. Complete reform of the social protection system is included therein, by introducing guaranteed minimum income. Social protection reform is aimed at re-designing the types,

adequacy and targeting of the social assistance, aimed at supporting the most vulnerable categories, as well as ensuring social safety for the elderly.

- Ensuring substantial amounts of agricultural subsidies, aimed at strengthening and supporting this sector, boosting the exports of Macedonian agricultural products and conquering new markets;
- Boosting the economic growth and development in the Republic of Macedonia, by supporting investments in order to enhance the competitiveness of the Macedonian economy and employment, by providing substantial support to the domestic companies, export support, measures for new greenfield investments and enhancing the innovation capacities of the companies by better access to skills, knowledge and technology.

Figure 7. Structure of current expenditures (%)

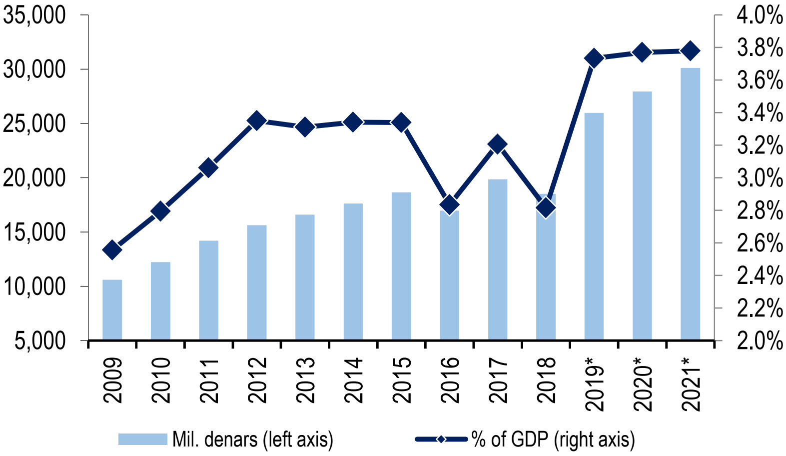


Source: Ministry of Finance

In the coming medium-term period, fiscal policy remains focused on ensuring substantial public investments, which are a precondition for improvement of economic perspectives, as well as better life of the citizens. Related to this, a significant amount of capital investments is projected (Figure 8), intended for intensification of the infrastructure projects, i.e. investments in railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

The efficient usage of budget funds and funds provided under loans from international financial institutions and bilateral creditors will be basis for a series of investment activities and reforms, which will provide for job creation and favourable business environment.

Figure 8. Capital expenditures in the central government budget (Budget of the Republic of Macedonia)



Source: Ministry of Finance and projections of the Ministry of Finance (*)

In addition to the Budget, substantial investments in road infrastructure, financed with World Bank loans, are ongoing through the Public Enterprise for State Roads, such as: “National and Regional Roads Rehabilitation Project”, including the following road sections: Krivogastani – Obrsani – Vogani, Kocani – Delcevo and “Road Upgrading and Development Project” (Kriva Palanka - Rankovce). At the same time, construction of Miladinovci-Stip Highway and Kicevo-Ohrid Highway, financed with loans from Export - Import Bank of China are ongoing. Activities envisaged under the National Roads Programme, funded with EBRD loan, will be intensified in the coming period, envisaging construction of new road sections Stip – Kocani and Raec – Drenovo, as well as reconstruction and rehabilitation of 26 road sections in the Republic of Macedonia, total length of which is around 400 km. Stip - Radovis Road Section Project, also funded with an EBRD loan, is in the process of realisation. In the coming medium-term period, construction of Skopje-Blace Motorway Section is expected to start, which will provide for positive effects on the economic, social and environmental aspects in the region and easier international transportation and trade in the region, particularly between the Republic of Macedonia and Republic of Kosovo. In the coming medium-term period, preparations on a new project on local roads with the World Bank will commence and the National Roads Programme will continue to be implemented. The Electronic System for Toll Collection along Corridor X Project is in the completion phase, and preparations are ongoing for the construction of new toll collection points phase 2 - along Corridor VIII and Miladinovci - Stip motorway.

As for the railway infrastructure, focus will be placed on the completion of the implementation of the Project for Improvement of the Railway Corridor X, as well as on the intensification of the activities within the Project for Completion of Railways in Corridor VIII, being aimed at connecting the Black Sea with the Adriatic Sea, which speaks about the huge strategic and economic significance of this project.

The construction of the eastern part of Rail Corridor VIII, i.e. the part towards Bulgaria, is carried out in 3 phases. Realisation of the first phase (Kumanovo - Beljakovce section), 30.8 km long, and second phase (Beljakovce - Kriva Palanka section), 34 km long, financed with EBRD Loans and WBIF grant funds, will be intensified within the envisaged period. In addition to the WBIF grant funds for technical assistance to the Project, an WBIF investment grant in the amount of EUR 70 million for financing of the second phase has been secured. Preparation of the third phase (Kriva Palanka - Deve Bair section, border towards the Republic of Bulgaria), covering 23.4 km, financed with IPA grants, is completed, and the construction is expected to be financed with loans from international financial institutions, bilateral creditors, while the possibility to ensure grant funds within the national IPA is also under consideration. In parallel to the investments in railway infrastructure, implementation of the “Macedonian Railways Fleet Renewal Project”, financed with EBRD loan in the amount of EUR 50 million, will continue.

As regards the transport infrastructure, Republic of Macedonia expressed interest in participating at the World Bank regional initiative “Western Balkans Trade and Transport Facilitation Project”. Significant project activities related to road and railway infrastructure, as well as activities aimed at improving cross-border cooperation with the countries in the region, will be realised within this initiative.

By implementing the “Project for Construction of Gas Pipeline System in the Republic of Macedonia“, business sector, public sector and households will be provided supply with cheap and environmentally friendly energy, at the same time reducing the emission of harmful gases. Construction of the sections of the national gasification system Stip - Negotino – Bitola and Skopje – Tetovo – Gostivar, which is ongoing, is financed with a loan from Deutsche Bank and Erste Group Bank. During the following period, the Government will focus on preparation and realisation of a new Municipal Gas Distribution Network Project in the Republic of Macedonia, to be financed with loans from the international financial institutions. The Project on the Interconnection Gas Pipeline between Macedonia and Greece, to be funded with a loan from the European Investment Bank, is also in the process of preparation.

Implementation of the “Municipal Services Improvement Project", with financial support by the World Bank, will continue in 2019 as well. World Bank loan proceeds are intended for financing infrastructure investment projects in the field of water supply and wastewater drainage, management of solid waste and other investments in municipal services, which have potential for generating revenues, i.e. making savings, or are of high priority for the municipalities. IPA funds are additionally provided for this Project, which the municipalities can use as grants by 2019 in order to finance their priority projects.

In order to improve the conditions and the quality of life, above all in the rural areas in the Republic of Macedonia, by supplying clean potable water, “Water Supply and Waste Water Collection Project”, financed with EIB (European Investment Bank) loan, will continue to be implemented in the coming period. At the same time, the Government of the Republic of Macedonia plans to provide additional financing for this Project in 2019 on the basis of a new loan from the EIB, in order to respond to the needs and the demands of the municipalities in the country for investments in utility infrastructure.

Construction of the Regional Clinical Hospital in Stip, financed with a loan from the CEB, will continue in the coming period, while the Government of the Republic of Macedonia undertakes activities for preparation and creation of conditions for construction of a new Clinical Centre "Mother Theresa" at a new location in Skopje.

As regards education, implementation of the "Project for Building Physical Education Facilities in Secondary Schools", financed with CEB loan and contribution of the Republic of Macedonia, is expected to be completed in the coming period. The Project covers construction and procurement of the necessary equipment for 30 physical education facilities in secondary schools in different municipalities in the country, as well as reconstruction of several secondary schools. In addition, implementation of the "Project for Building Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools in the Republic of Macedonia", financed with CEB loan and contribution of the Republic of Macedonia, will continue, aimed at improving the physical education, as well as the overall learning conditions in the primary and the secondary schools.

Implementation of the second and the third phases of the "Zletovica Water Basin Utilisation Improvement Project" is planned to commence with a support by EIB. The main objective of the second phase is provision of irrigation for 4,570 ha net area in the region of Probistip and Kratovo municipalities. Implementation of the third phase, which includes construction of small hydro power plants along the flow of Zletovica River, will provide for reducing electricity shortage in the region, safe, secure and quality supply of energy for the consumers and increased energy efficiency.

Second phase of the "Irrigation Programme Southern Vardar Valley", which will continue in 2019 as well, will be financed with KfW loan. EUR 4 million is provided for this Project as a grant from the German Federal Republic through the KfW bank, aimed at supporting the envisaged investment activities, i.e. rehabilitation and modernisation of the irrigation systems in Valandovo region.

First phase of the "Water and Sewerage Programme Macedonia", financed with KfW loan and SECO grant funds, is expected to be completed in the following mid-term period, providing for sustainable supply of potable water to the population in the selected municipalities (Gostivar, Kavadarci, Radovis). At the same time, it is expected for the second phase of the Project to commence. This phase will be financed with grant funds in the amount of EUR 5 million, awarded by the German Federal Republic through KfW, for investment activities in the municipalities of Gevgelija, Radovis and Kavadarci.

An important priority where the Macedonian Government will focus on is the preparation and the implementation of the Project for Construction of Waste Water Treatment Plant in the City of Skopje, where loans and grants are planned to be provided from EBRD and EIB.

In order to establish professionally and efficiently organised and managed houses of correction (HC) and educational correctional houses (ECH), which continuously ensure re-socialised and integrated citizens in the society, "Project for Reconstruction of Houses of Correction", financed with the Council of Europe Development Bank loan, is being implemented. First segment of the Project will be completed in 2019, envisaging activities to be performed in Kumanovo Prison, ECH for minors in Tetovo, as well as the activities within the first phase of HC Izdrizovo. At the same time, implementation of second segment of the Project will commence, covering two important houses of correction in the Republic of Macedonia, i.e. phases 2 and 3 of HC Idrizovo and Skopje Prison.

One of the important elements in the social development policy is to increase the quality of life of low-income persons and vulnerable groups by providing for their appropriate housing. Government activities and measures as regards social policy are also supported under the "Project for Housing of Vulnerable Groups", funded with a CEB loan, encompassing construction of flats for low-income persons. Within this sector, the Government of the Republic of Macedonia, in cooperation with the World Bank, has commenced preparatory activities for a new project to include implementation of reforms in the social protection area, as well as investment activities aimed at improving the social infrastructure, i.e. reconstruction and construction of early childhood development centres.

In order to provide fresh capital for small- and medium-sized enterprises, as well as support for new projects, job creation, increased liquidity of the economy and higher exports, fifth EIB credit line for financing small- and medium-sized enterprises, in the amount of EUR 100 million, will be realised.

2.1.3 Central Government Budget Deficit and Its Financing

During the 2019-2021 period, the budget deficit is envisaged to gradually fall, as follows: Denar 17.7 billion in 2019, Denar 17.2 billion in 2020 and Denar 16.1 billion in 2021. This means that gradual fiscal consolidation is projected in this medium-term period, i.e. the share of budget deficit in GDP will decrease from 2.5% in 2019 to 2.3% in 2020 and 2.0% in 2021.

The financing of the projected deficit will be provided from domestic and foreign sources (Table 6). In the period 2019-2021, borrowing abroad may be realised on the basis of favourable loans from international financial institutions, disbursements of funds under favourable loans and credit lines intended for financing certain projects, as well as issuance of Eurobond on the international capital market. Related to this, the choice of a specific external financing source will be based on the ongoing and the expected developments on the international capital market. Furthermore, borrowing on the domestic government securities market will provide for additional financing under favourable terms and conditions, by using the relatively low interest rates and the high level of interest of investors on the domestic government securities market. For the purpose of optimising the payments and reducing the refinancing risk, main commitment of the Ministry of Finance will be to lengthen the maturity of issued securities, by issuing government bonds with longer maturities.

Table 6. Deficit and Sources for Its Financing (Denar million)

	Execution 2017	Budget 2018	2019*	2020*	2021*
Budget balance	**-16,888**	**-18,052**	**-17,700**	**-17,162**	**-16,105**
Deficit financing	**16,888**	**18,052**	**17,700**	**17,162**	**16,105**
Inflows	**34,470**	**46,487**	**34,195**	**51,849**	**61,798**
Domestic sources	20,086	17,676	19,004	15,217	17,136
Foreign sources	3,835	33,108	25,516	34,838	35,400
Deposits ("-" is accumulation on the account)	10,549	-4,297	-10,325	1,794	9,262
Outflows	**17,582**	**28,435**	**16,495**	**34,687**	**45,693**
Repayment upon domestic borrowing	9,301	12,217	10,320	7,550	8,310
Repayment upon foreign borrowing	8,281	16,218	6,175	27,137	37,383
Memorandum					
Net domestic borrowing	10,785	5,459	8,684	7,667	8,826
Net foreign borrowing	-4,446	16,890	19,341	7,701	-1,983

Source: Ministry of Finance and projections of the Ministry of Finance (*)

2.2 Local Government Budget

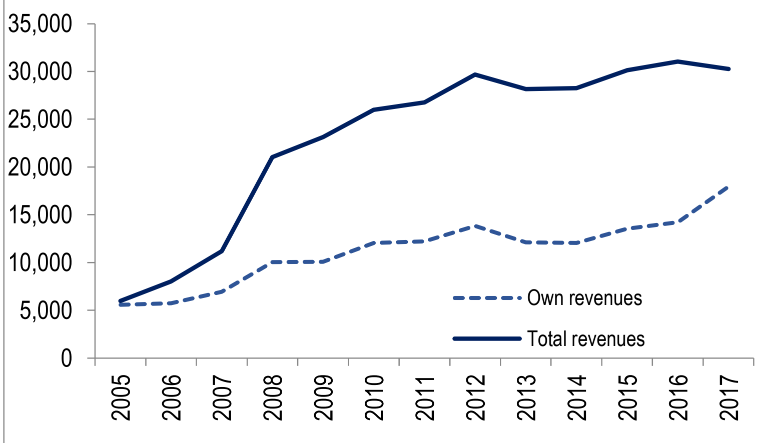
Decentralisation of the powers to local government and strengthening its capacity is one of the priorities arising from the Accession Partnership of the Republic of Macedonia with the EU and the Framework Agreement. All municipalities (except for Plasnica) finance the transferred powers with block grants since 2012, when the phased approach for transferring and managing the operating and financial resources for the transferred powers in the field of education, culture, child care and social protection ended.

Powers in several sectors assumed by the municipalities increased both the administrative and the fiscal capacities and strengthened the capacities for managing larger amount of funds. Successful administration and collection of own revenues contributes to the process of increased own revenues of municipalities and the strengthened capacities for fund management, performance of the transferred powers and management of financial and other resources necessary for their realisation. In addition, municipalities successfully administer new powers related to managing construction land, dealing with illegally built facilities with respective revenue collection. Successful implementation of fiscal decentralisation, with fully established legal and institutional framework for local government, provides for developed, responsible and functional local government units and level of local democracy, bringing the citizens closer to the local government institutions. Progress in achieving the decentralisation-related goals is assessed as successful by many international institutions, which assisted with several projects towards improvements in the public financial management system, control, transparency and coordination in managing local government reforms.

At the same time, access to the capital market has been easier, under more liberal and transparent requirements for borrowing, by which, interest of the municipalities for financing investment projects on the basis of borrowing increased. To that end, the Government has provided credit lines from international financial institutions (World Bank, EIB, KfW and EBRD), which have provided for substantial investments, especially in: reconstruction and rehabilitation of local streets, roads and bridges, construction and reconstruction of water supply and atmospheric water networks, improvement of public hygiene and increasing energy efficiency in municipal public facilities and local spatial landscaping.

As regards the level of decentralisation, the Republic of Macedonia, according to the data on 2017 expenditure execution (around 5% of GDP), belongs to the group of decentralised countries. Compared to 2005, when the process of transferring of powers and fiscal decentralisation commenced, today, municipal revenues have increased by more than five times (Denar 5.9 billion in 2005, more than Denar 30 billion in 2017). Tax revenues, which the municipalities are authorised to collect, have increased by more than twice during the same period (Figure 9).

Figure 9. Own and Total Revenues in the Period 2005 - 2017 (Denar million)



Source: Ministry of Finance

Municipalities in the Republic of Macedonia are financed from own sources of revenues, grants from the central government budget (Budget of the Republic of Macedonia) for the powers transferred in the field of education, culture, social protection and fire fighting, revenues determined in separate laws, tax revenues collected at central level, transfers from the central government budget and other institutions, revenues collected from grants, loans and other revenues.

Own revenues of the municipalities are local taxes (tax on real estate, inheritance and gift tax, tax on sales of real estate), local fees prescribed by law (utility fees, administrative fees and other fees stipulated by law), local fees (fee for landscaping of construction land, fees for utility activities, fees for spatial and urban plans), revenues on the basis of ownership and other revenues stipulated by law. Municipalities also receive transferred revenues in the amount of 3% of the collected PIT on the basis of personal earnings from salaries of individuals with a permanent address in the respective municipality and 100% of the PIT collected from individuals engaged in craftsmanship activity, registered in the area of the municipality.

Additional revenues are also transferred as grants from the central government budget (Budget of the Republic of Macedonia), as follows: revenues on the basis of VAT grants (4.5% of collected VAT in the previous fiscal year), earmarked and block grants for the transferred powers in the field of education, culture, social protection and fire fighting, and capital grants. Funds from these grants are distributed on the basis of criteria determined in decrees adopted by the Government of the Republic of Macedonia.

2.2.1 Revenues and Expenditures in the period January - November 2018

Revenue collection and inflows in the budgets of local government units in this period were within the expectations, i.e. total revenues in the period January - November 2018 were collected in the amount of Denar 29,150 million and they grew by around 4% compared to the same period last year. Denar 7,552 million out of this amount was tax revenues, being higher by 4.3% compared to last year. Revenues collected of the basis of property taxes in this period of 2018 amounted to Denar 2,756 million, being an increase of 8.8%. As regards income taxes and fees for usage or licences for performing an activity, growth of 8.2%, i.e. 50%, was registered.

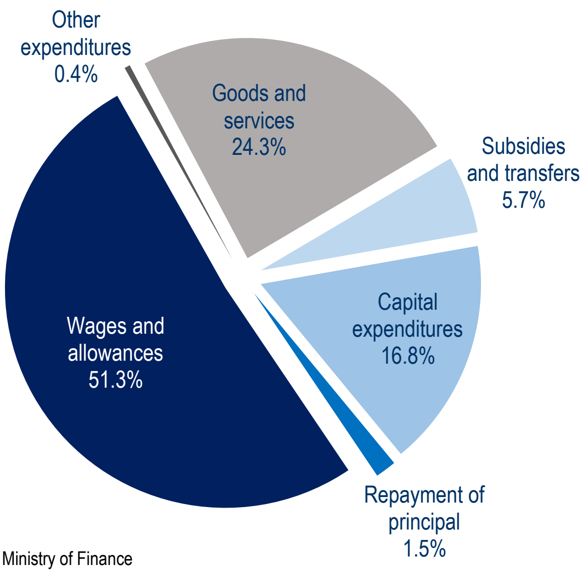
During the analysed period in 2018, non-tax revenues were collected in the amount of Denar 1,248 million and, when compared to the same period in 2017, they were higher by 5%, i.e. by Denar 60 million. With respect to non-tax revenues, inflows on the basis of fees and charges predominated, amounting to Denar 920 million, registering an increase of 2.5% compared to those collected in the respective period in 2017.

In the period January - November 2018, capital revenues were collected in the amount of Denar 1,578 million, being higher by 35.3% compared to those collected in the previous year. Capital revenues are dominated by revenues collected from the sale of land and intangible investments. In the analysed period in 2018, revenues collected on the basis of grants amounted to Denar 15,173 million, i.e. they had an annual increase of 6.7%. Revenues collected on the basis of transfers in the period January – November 2018 amounted to Denar 2,647 million, being by 15.8% lower compared to the revenues collected in the analysed period last year. In the period January – November 2018, revenues collected on the basis of donations amounted to Denar 705 million, i.e. they surged by 5% compared to last year. During the same period, revenues on the basis of loans were collected in the amount of Denar 247 million, i.e. they significantly decreased by 43% compared to the same period last year.

In the period January – November 2018, expenditures were executed in the amount of Denar 26,736 million, i.e. execution was lower by 1.8% in relation to the same period last year. These expenditures provided for settling the liabilities on regular basis, arising from the transferred powers to the municipalities, necessary for their ongoing operations, implementation of capital projects and principal repayment for the previously taken loans.

Expenditures related to wages and allowances accounted for the most of the expenditures with 51.3%, i.e. Denar 13,712 million (Figure 10). Most of the wages, i.e. 83.9% or Denar 11,508 million was intended for the employees in the institutions at local level, such as primary and secondary education, culture, kindergartens and old people's homes and fire fighting, financed with block grants. Expenditures related to goods and services amounted to Denar 6,484 million, accounting for 24.3% of total expenditures. Capital expenditures accounted for 16.8%, amounting to Denar 4,491 million, being mostly financed, i.e. 82.2%, with municipal own funds, while 8.9% was funds on the basis of donations. Expenditures related to subsidies and transfers amounted to Denar 1,528 million, accounting for 5.7%, while principal repayment amounted to Denar 410 million, i.e. 1.5% of total expenditures. Expenditures executed on the basis of reserves, social benefits and interest payments accounted for around 0.4%.

Figure 10. Structure of Expenditures in the period January - November 2018



Source: Ministry of Finance

2.2.2 Medium-Term Framework of Local Government Budget

In the course of 2019, as well as in the medium run, municipalities are expected to continue the trend of improved collection of own revenues, strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. For the purpose of realising the strategic commitments, strong commitment to encouraging sustainable local development, good local governance and creating conditions for more active, more effective and more innovative role of the local authorities in implementing national objectives for growth and development will continue in the next period as well.

Stable revenues are allocated to the municipalities from the central government budget on the basis of the VAT grant (general grant), in the amount of 4.5% of VAT collected in the previous year. As regards the grants for transferred powers, criteria for distribution of funds allocated for the transferred powers in the field of primary and secondary education, culture, child care and protection of elderly people and fire fighting will be defined in the following period. Therefore, the Government of the Republic of Macedonia has established an inter-ministerial working group, which is to prepare a detailed analysis on the situation in these areas in which block and earmarked grants are transferred, redefining the manner and the determining of the distribution criteria.

New revenues are provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the central government budget and 50% for the municipalities and the municipalities in the City of Skopje, to be distributed from 2018, depending on the location of the agricultural land under lease, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the ones projected in the previous year. Municipalities also have higher revenues from the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the local authorities), depending on which area the concession activity is performed.

Increased own revenues of the municipalities, in particular revenues collected on the basis of taxes on real estate, as a result of better inclusion of the real estate of natural persons and legal entities and re-assessment of the value of real estate, will continue in the next medium-term period. At the same time, part of the municipalities generate higher revenues on the basis of property taxes as a result of the higher rate of calculation and collection of property tax within the margin set by to the Law on Property Taxes. Higher revenues are also expected by applying the improved elements of calculation in the Methodology on Determining Market Value of Real Estate, as well as the improved quality of the assessment of the value of real estate with the legal possibility to employ an expert – an evaluator or to use the services of licenced evaluators.

In the coming period, higher revenues are expected to be generated by determining the real market value of the real estate after completing the procedure related to illegally built facilities on construction and agricultural land. Further on, municipalities will continue performing the transferred powers for management of construction land and treatment of illegally built facilities and agricultural land, the respective sources of revenues therefore being determined in the municipal budget.

In November 2018, the Law on Financial Support to Local Government Units and Spending Units Established by Local Government Units for Financing of Unpaid Obligations that Are Due for Payment was adopted. The Law is aimed at providing financial support to local government units and spending units established by local government units in the amount of Denar 3,032 million for the purpose of servicing part of the obligations of municipalities and spending units that are unpaid and due for payment, as reported in the Electronic System for Reporting and Recording of Obligations as of September 2018.

In addition, under the amendments to the Law on Financing of Local Government Units, a fiscal rule has been established for planning the own (genuine) revenues of the core budget of local government units, i.e. for limiting the planning of own revenues of the municipal core budget. Pursuant to the amendments to the Law, the planned increase of own revenues of the municipal core budget cannot exceed 10% of the average revenues generated in the last three years, according to the Treasury records. At the same time, exceptions are only possible if the municipality has a confirmation as regards the transfer of funds from a respective institution or in case of changes pertaining to the amount and the type of own revenues of the core budget, determined by law. Thus, proposed legal solutions are expected to significantly improve the fiscal position of the municipalities.

The Government of the Republic of Macedonia will continue to carry out the activities aimed at equal regional development and advancement of all regions in the country in the next period as well. Implementation of the 2009-2019 Strategy for Equal Regional Development of the Republic of Macedonia in the eight planning regions (Vardar, East, Southwest, Southeast, Pelagonija, Polog, Northeast and Skopje regions), by better vertical and horizontal coordination of both the national and the local policies and the integrated development projects adjusted to the local needs and conditions, will provide for more balanced local development throughout the country. The Council for Equal Regional Development will continue to play a significant role as promoter of partnership between the regions/the municipalities and the Government, and within it the usage of funds will be coordinated from all sectoral programmes intended for the planning regions and the municipalities. Special efforts will be put in supporting the municipalities by encouraging the local development via supporting the local projects and harmonizing them with the national ones.

The 2015 - 2020 Programme on Sustainable Local Development and Decentralisation in the Republic of Macedonia is in the process of revision, as well as the 2018 - 2020 Action Plan, envisaging specific activities and projects to be implemented by the relevant institutions. The request for the Programme to be partially revised arose due to the need for it to be harmonised with the present policies, priorities, strategic documents and trends of local development and decentralisation in the country.

Implementation of a series of infrastructure projects related to the improvement of the quality of life will accordingly improve the regional development and the active integration in the economy. Related to this, projects will be implemented aimed at improving the overall road infrastructure, bridges, local streets and roads, utility infrastructure (water supply, sewage systems, wastewater treatment station collectors, pedestrian crossings, horticulture landscaping, public hygiene), as well as improving the infrastructure of villages through urbanisation, connection of inhabited areas and construction of local roads, pedestrian crossings and lighting, development and support of rural tourism and recreational centres.

As mentioned above, implementation of the “Municipal Services Improvement Project", financially supported by the World Bank, as well as of the “Water Supply and Waste Water Collection Project”, financed with EIB (European Investment Bank) loan, will continue in the coming period. At the same time, pursuant to the legal regulations, in the coming period, municipalities that fulfil the legal criteria to borrow, will be able to finance their projects by borrowing on the basis of concluding loan agreements with domestic or foreign creditors or on the basis of issuing municipal bonds.

Table 7. Medium-Term Projection of Local Government Budget

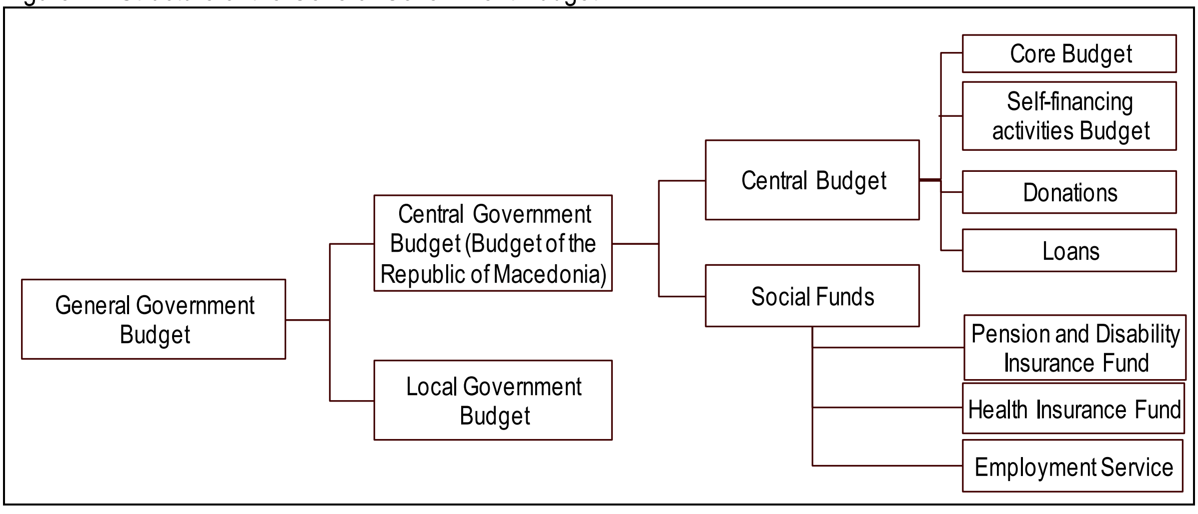
	2018*	2019*	2020*	2021*
Total revenues	**35,365**	**34,039**	**35,271**	**36,627**
Tax revenues	8,450	8,450	8,450	8,450
Non-tax revenues	1,450	1,450	1,450	1,450
Capital revenues	1,820	2,120	2,120	2,120
Transfers	22,845	21,219	22,451	23,807
Other transfers	4,732	2,100	2,400	2,700
Donations	800	800	800	800
Total expenditures	**32,033**	**37,071**	**35,271**	**36,627**
Wages and allowances	15,289	16,030	16,621	16,621
Goods and services	8,105	8,967	8,749	9,688
Interest payments	55	55	55	55
Subsidies and transfers	1,450	1,970	1,470	1,470
Social transfers	0	0	0	0
Capital expenditures	7,134	10,049	8,376	8,793
Balance	**3,332**	**-3,032**	**0**	**0**
Financing	**-3,332**	**3,032**	**0**	**0**

Source: Projections of the Ministry of Finance (*)

2.3 General Government Budget (Consolidated central and local government budget)

The General Government Budget includes consolidated data of the central government budget (Budget of the Republic of Macedonia) and the local government budget (budgets of the municipalities). The central government budget comprises the central budget (core budget, self-financing activities budget, donation funds and loan funds) and the budgets of the Pension Insurance Fund, the Health Insurance Fund and the Employment Agency (Figure 11).

Figure 11. Structure of the General Government Budget



In the following period, revenues projected in the General Government Budget will decline as share of GDP, from 31.2% of GDP in 2018 to 30.4% in 2021 (Table 8). As a result of continuous disciplined budget policy and strengthened control over the public spending, total expenditures in the general government budget will also experience a decline in the period 2018 - 2021, from 33.4% in 2018 to 32.4% in 2021.

Table 8. General Government Budget

	Denar million				% of GDP			
	2018*	2019*	2020*	2021*	2018*	2019*	2020*	2021*
Central Budget								
Revenues	111,706	125,156	129,695	133,885	17.0	18.0	17.5	16.8
Expenditures	129,405	142,477	146,605	149,833	19.7	20.5	19.8	18.8
Deficit	-17,699	-17,321	-16,910	-15,948	-2.7	-2.5	-2.3	-2.0
Social Funds								
Revenues	58,233	64,773	67,880	71,884	8.9	9.3	9.2	9.0
Expenditures	58,586	65,152	68,132	72,041	8.9	9.4	9.2	9.0
Deficit	-353	-379	-252	-157	-0.1	-0.1	0.0	0.0
Central Government (Budget of the Republic of Macedonia)								
Revenues	169,939	189,929	197,575	205,769	25.8	27.3	26.7	25.8
Expenditures	187,991	207,629	214,737	221,874	28.6	29.8	29.0	27.9
Deficit	-18,052	-17,700	-17,162	-16,105	-2.7	-2.5	-2.3	-2.0
Local Government Budget								
Revenues	35,365	34,039	35,271	36,627	5.4	4.9	4.8	4.6
Expenditures	32,033	37,071	35,271	36,627	4.9	5.3	4.8	4.6
Deficit	3,332	-3,032	0	0	0.5	-0.4	0.0	0.0
General Government Budget (Consolidated Central and Local Government)								
Revenues	205,304	223,968	232,846	242,396	31.2	32.2	31.4	30.4
Expenditures	220,024	244,700	250,008	258,501	33.4	35.2	33.7	32.4
Deficit	-14,720	-20,732	-17,162	-16,105	-2.2	-3.0	-2.3	-2.0

Source: Projections of Ministry of Finance (*)

3. Improvement of Public Financial Management

Good governance and public financial management become a component of a fundamental importance and factor to financial safety in all countries. In order to ensure sustainability of the national budgets and the financial system, as well as stable and sustainable economic development, strengthened public financial management is required. Public financial management has impact on the economic stance of the country and on its ability to implement the set policies in order to realise the priorities.

Public financial management is aimed at attaining the following goals:

- maintenance of fiscal discipline, aimed at controlling total budget expenditures by introducing spending limits
- allocation of funds in line with the government priorities,
- efficient delivery of public services, and
- transparency improvement.

Therefore, an efficient public financial management system is an indispensable requirement for a sustainable economic growth and efficient delivery of public services in the country, as well as for setting the basis for implementing reforms in other areas. Commitment to improving the public financial management is embodied in the Public Financial Management Reform Programme 2018 - 2021, adopted by the Government of the Republic of Macedonia. The goal of the Programme is to improve efficiency and effectiveness of public spending, strengthen fiscal discipline, debt sustainability and efficient, transparent and modern public financial management through 7 priority reform areas:

- Priority 1: Improved Fiscal Framework

- Priority 2: Revenue Mobilisation
- Priority 3: Planning and Budgeting
- Priority 4: Budget Execution
- Priority 5: Transparent Government Reporting
- Priority 6: Internal Control
- Priority 7: External Control and Parliamentary Oversight.

In 2018, the Government started implementing both the measures and the activities envisaged in the Public Financial Management Reform Programme and the adopted 2018 Action Plan. Key reform activities encompassed by the 2018 Action Plan are aimed at preparing new legal solutions in several key areas: Public Procurement Law harmonised with the latest Procurement Directives and the EU best practice, Law on Public Internal Control, Budget Law, introduction of fiscal rules and fiscal council and revision of the Public Debt Law.

In the coming period, implementation of measures and activities envisaged in the Public Financial Management Reform Programme and the annual action plans for its implementation will continue, to the end of realizing the Programme goals: improved medium-term fiscal projections, improved revenue collection in the country by both the tax and the customs administration and ensured long-term stability of the IT systems for public financial management in case of crisis, maintaining overall fiscal discipline in the medium term, improved efficiency when executing the Budget and strengthened financial discipline, improved transparency in public financial management, establishment of a sound financial management and control system and ensuring accountability in spending public funds.

Improved transparency through government reporting is one of the measures envisaged in the Programme which the Government started in 2017, when the Ministry of Finance published the Citizen's Budget for the 2017 Supplementary Budget and the Citizen's Budget for the 2018 Budget for the first time, as well as many other new fiscal information, such as reports on budget execution by budget users on monthly basis, reports on budget execution of the municipalities on quarterly basis, quarterly report on execution of the General Government Budget. In order to improve accountability and to inform the public on how citizens' funds are spent, at the same time reflecting in greater inclusion of the citizens in the creation of government programmes and policies, one of the key commitments of the Ministry of Finance in the period 2018 - 2021 will be to develop and implement transparency standards on PFM reporting.

Taking into account that no unified mechanism on recording liabilities exists as regards the liabilities of the entities using the public funds, a need has arisen for a systemic solution for recording liabilities by creating an electronic system to provide for a single recording of all liabilities. Therefore, Law on Reporting and Recording Liabilities was adopted in 2018, regulating the reporting and the recording of undertaken liabilities not yet due for payment and unpaid liabilities that are due for payment, in order to ensure and maintain transparency and accountability and strengthen the responsibility when managing public funds.

This legal solution establishes a legal obligation for reporting the liabilities in the electronic system on monthly basis by:

- government bodies,
- local government units,
- institutions performing activities in the field of culture, education, health, child care and social protection, as well as other activities of public interest determined by law, established by the Republic of Macedonia or the local government units,
- public enterprises, state-owned companies and
- other legal entities established by the Republic of Macedonia or the local government units.

On the basis of the recorded data on reported liabilities, and in order to inform the public and improve transparency, in October 2018 the Ministry of Finance published summary reports on its website, which will fully reflect the undertaken obligations not yet due for payment, as well as unpaid obligations that are due for payment as of September 2018.

On the basis of data from the Electronic System for Reporting and Recording of Obligations and the secured fiscal space with the Supplement Budget for 2018, the Law on Financial Support to Local Government Units and Spending Units Established by Local Government Units for Financing of Unpaid Obligations that Are Due for Payment was adopted. The Law is aimed at providing financial support to local government units and spending units established by local government units in the amount of Denar 3,032 million for the purpose of servicing part of the obligations of municipalities and spending units that are unpaid and due for payment, as reported in the Electronic System for Reporting and Recording of Obligations as of September 2018.

In addition, under the amendments to the Law on Financing of Local Government Units, a fiscal rule has been established for planning the own (genuine) revenues of the core budget of local government units, i.e. for limiting the planning of own revenues of the municipal core budget in order to prevent a future incurring of a significant amount of obligations of municipalities and to improve their fiscal discipline.

Within the efforts to further improve transparency and government finance statistics, in January 2018, Ministry of Finance for the first time submitted reports to be published in the IMF GFS Year Book in line with the latest IMF GFSM 2014. The reports cover the execution of the General Government Budget (central government budget and local government budget), prepared on cash basis, including annual data for the period from 2013 to 2016. By publishing these reports, the Republic of Macedonia joined the IMF database which provides for comparison of the data at international level. One of the priorities of the Ministry of Finance in the coming period will be further improvement of government finance statistics and alignment with the latest international standards.

For the purpose of better quality public debt management, the Ministry of Finance has initiated strengthening of its capacities in this area and has asked for a technical assistance from the IMF and the World Bank. At the beginning of 2017, the Ministry of Finance joined the World Bank Government Debt and Risk Management Programme (GDRM), which comprises several components to be worked on in the coming period, as follows:

- further development of domestic securities market;
- improvement of the capacities when managing risks of the public debt portfolio and improvement of the medium-term public debt management framework;
- improvement of the functions of the public debt management system.

4. Use of EU Pre-Accession Assistance

Republic of Macedonia, as a candidate country for EU membership, has funds under the EU Pre-Accession Assistance (IPA) Instrument available through two financial perspectives: IPA 2007 - 2013 Financial Perspective (IPA 1) and IPA 2014 - 2020 Financial Perspective (IPA 2).

This section of the document presents only the part of EU Pres-Accession Assistance which is implemented under the decentralised/indirect management method. IPA decentralised/indirect management method is a management method within which the European Commission entrusts tasks for implementation of certain IPA programmes to the accredited structure in the Republic of Macedonia, such as tender procedures, contracting, project monitoring and execution of payments. On the other hand, when it is a matter of centralised management, these are responsibilities of the EC.

Funds for national co-financing intended for projects implemented under the decentralised/indirect management are planned within the budget of the Ministry of Finance, organisational code 09002 - Functions of the State, except for the national co-financing necessary for financing the IPARD projects, which is planned within the budget of the Agency for Financial Support in Agriculture and Rural Development, organisational code 14004, as well as the national co-financing for payment of financial contribution to EC for participation in the Union Programmes, which is planned in the line ministries.

4.1 IPA 1 - 2007 - 2013 Financial Perspective

Within IPA 1 - 2007 - 2013 Financial Perspective, Republic of Macedonia had available, through the five IPA Components, funds in the amount of EUR 614 million (Denar 37.8 billion), around EUR 467 million (Denar 28.7 billion) out of which or around 76% of the total allocations were employed through the decentralised management model (through structures that are accredited by the EC services so as for indirect management of the European funds). As regards IPA 1, national structures responsible for implementation of the projects are accredited for decentralised management of the following components: IPA Component I - Transition Assistance and Institution Building (TAIB); IPA Component III - Regional Development; IPA Component IV - Human Resources Development and IPA Component V - Rural Development.

Implementation of most of the programmes within IPA 1 finishes by the end of 2017/2018, i.e. projects which finish are the ones financed within the Annual National Programmes TAIB 2009, 2010, 2011, the Multi-Annual Programme on Regional Development, the Multi-Annual Programme on Human Resources Development and IPARD Programme. Projects financed under the Regional Development Component, in addition to contributing to modernisation of both the road and the railway traffic in the country and improvement of the environment infrastructure, show the best visibility of IPA funding.

As regards the transport sector, several major projects were financed:

- Project for Construction of New Motorway Section Demir Kapija – Smokvica as part of Pan-European Corridor X;
- Project for Renewal with Reconstruction of the Railway Section Bitola - Kremenica, as part of Xd of Corridor X, expected to be completed by the end of 2018;
- Project for Upgrading and Extension of Sewerage Network in Prilep.

In addition to the above-mentioned major projects, significant number of infrastructure projects, as well as several important projects on preparation of tender documentation, were also implemented and successfully completed, as follows:

- rehabilitation of motorway sections Veles - Katlanovo, Smokvica - Gevgelija, Kumanovo - Miladinovci (right and left carriageway) as part of Road Corridor X;
- rehabilitation and upgrading of Skopje Railway Station and of additional 10 railway stations along Corridor X;
- reconstruction and placement of traffic signs and road markings on certain interchanges along Corridor X, which has improved the road safety system in the country;
- preparation of a detailed design for construction of new railway section Kriva Palanka - border with Republic of Bulgaria, as well as section Kicevo - Lin, as part of Corridor VIII.

With respect to the environment sector, sewerage networks, 110 km long in total, were built in Prilep, Kumanovo and Berovo, four waste water treatment plants were built in Prilep, Strumica, Radovis and Kicevo, project documentation for construction of new waste water treatment plants in 12 municipalities was prepared, project documentation for establishment of Integrated Waste Management System in six regions, out of total of eight planning regions, in the country was prepared, new tariff system on water services was developed and established, which started to apply from 1st January 2018, National Water Management Study was prepared, being a set of documents outlining the water management policy of the country.

Programmes within IPA 1 which remain to be implemented include the projects planned within Annual National Programme TAIB 2012 and Annual National Programme TAIB 2013.

These IPA Component I Programmes generally provide support to the state administration in order to enhance its capacities at both central and local level, undertake reforms, as well as fulfil the obligations under the membership more quickly and more efficiently.

As per National Programme TAIB 2012, contracting rate accounts for around 75%, i.e. total of 46 contract are concluded, the implementation of which is to be completed by October 2018, while the deadline to complete the final payments per the contracts expires in October 2019.

With respect to National Programme TAIB 2013, contracting rate equals around 93%, i.e. total of 52 contracts are concluded, the implementation of which commenced in December 2017. In line with the requirements in the Financing Agreement, contract implementation should be completed by December 2019, i.e. final payments under the contracts are to be made by 21st December 2020 at the latest.

Projects in the following areas are financed within these two Programmes:

- Public Administration Reform: the objective is to ensure horizontal coordination as regards administration modernisation, to improve public financial management and to ensure accountability and transparency in using public funds, to support the inclusion of the civil society in policy creation by strengthening the capacities of the institutions in charge of various sectoral policies;
- Local government: the objective is to consolidate the local government system by ensuring strong link between the decentralisation process and the inclusive processes for sustainable development with the two support processes, fiscal decentralisation and equal regional development. In addition, it is also aimed at ensuring for the policy focus to be shifted to providing equitable access to better local services for all citizens by creating legal and institutional environment;
- Justice, home affairs and fundamental rights: the objective is underpin implementation of both standards and recommendations of the international community and the European Union in the areas such as border control, fight against organised and serious crime, financial crime, fraud as regards EU funds, corruption, money laundering, judicial cooperation, IT infrastructure necessary for fulfilment of the requirements in the Schengen zone and personal data protection;
- Customs and border crossing Kafasan: the objective is to strengthen CARM institutional and administrative capacity and to meet EU measures on implementing the acquis in the field of customs so as to prevent illegal trading in goods, to facilitate trade and to introduce further improvements in terms of

the organisation and the management by implementing the adopted strategies on further development of customs operations and procedures. In addition, the goal is to upgrade the customs clearance and inspection capacities at the Kafasan road border crossing;

- Tabanovce border crossing: the goal is to upgrade the customs clearance capacities at Tabanovce road border crossing;
- Environment and climate changes: the goal is to strengthen the administrative capacities as regards waste management, water management, air management, climate changes and environment protection;
- Private sector development: the goal is to improve the business environment and the institutional capacities in the field of competitiveness, boost the competitiveness index of the country, boost the competitiveness of the market and the efficiency of the companies' production, as well as enhance market sophistication, innovations and access to finances;
- Agriculture and rural development: the goal is to develop a common sectoral access and understanding of priorities in agriculture and rural areas, which are to contribute to implementing the EU Common Agricultural Policy;
- Further harmonisation of food safety, veterinary and phytosanitary policies with EU requirements: the goal is to provide additional assistance to the Food and Veterinary Agency and the Phytosanitary Agency to the end of strengthening their overall abilities to implement the EU acquis and the obligations encompassed in other relevant documents, with a specific reference to improving the animal control, field inspection services, feed safety, primary control over production and plant health control systems;
- Strengthening the capacities of the National Authorities for sound and efficient management of EU funds: the goal is to strengthen the capacities of NAO, NF, CFCD (structures within the Ministry of Finance), the Operating Structure, NIPAC Office and AA for sound and efficient management and auditing of EU funds, in terms of both the new EU regulation on IPA 2 for the following Financial Perspective 2014-2020, and the acceleration of the EU integration process by adhering to the new priorities identified in the new progress reports and the Enlargement Strategy.
- Participation in EU programmes and agencies: the goal is to co-finance the costs related to the 'entry tickets', which the beneficiary has to pay for participation in the EU programmes and agencies, thus facilitating the progressive transfer of 'know-how' and strengthening the capacities of the relevant administrative bodies benefiting from the participation in the programmes and the agencies.

Thereby, it is important to point out that significant portion of the funds is also intended for intensifying the cooperation of the Macedonian Government with the NGO sector and strengthening the capacities of the NGO sector. In fact, total of 25 grant contracts are concluded with the NGO sector under the National Programme TAIB 2013 alone.

4.2 IPA 2 - 2014 - 2020 Financial Perspective

Under IPA 2 2014 - 2020 Financial Perspective, the Republic of Macedonia has EUR 664 million (Denar 40.9 billion) available, EUR 445.5 million (Denar 27.44 billion) out of which or almost 67% is programmed so far. With respect to the manner of implementation, around 50% of the total allocations under IPA 2 are planned to be implemented through indirect management system, i.e. through accredited IPA structures.

Awarded assistance will be used for financing projects in the following areas: justice and home affairs, enhanced competitiveness, road and railway infrastructure, environment protection, education, employment, promotion of gender equality, human resources development and agriculture and rural development.

IPA funds that will be implemented through indirect management are the following annual and multi-annual programmes:

- 2014 Action Programme for financing projects in the following areas:
  - judiciary,
  - disaster recovery system and ensuring business continuity,
  - development of capacities for crime scene investigations,
  - entry tickets for the Union programmes,
  - local and regional competitiveness, focusing on tourism, and
  - support to EU integration (SEA)
- 2015 Action Programme, 2016 Action Programme, 2018 Action Programme and 2019 Action Programme, under which entry tickets for EU Programmes are financed;
- 2017 Action Programme for financing projects in the following areas:

- labour and education,
- entry tickets for the Union Programmes,

- Multi-Annual Sectoral Operational Programme of the Republic of Macedonia for Transport 2014 – 2020;
- Multi-Annual Sectoral Operational Programme of the Republic of Macedonia for Environment and Climate Action 2014 – 2020;
- IPARD 2 Programme.

Around 15 contracts are envisaged to be financed within the 2014 Action Programme. As regards the financing of the projects within this Programme, IPA funds in the amount of around EUR 20 million are made available to the Republic of Macedonia. Among the more significant projects envisaged to be financed under the Programme are the following:

- construction works for rehabilitation of prisons in Bitola and Skopje,
- construction works for rehabilitation of Public Prosecutor's Office regional offices,
- call for grants for support to NGO in the area of law,
- service contracts to support judiciary reforms,
- contract for procurement of IT equipment for the Ministry of Internal Affairs - Disaster Recovery Data Centre,
- contract for procurement of IT equipment for the judiciary bodies.

Contracting deadline is 23rd December 2018.

Financing of projects in the field of road and rail transport, as well as projects for construction of waste water treatment plants, sewerage networks and waste management and climate changes is envisaged within the Multi-Annual Sectoral Operational Programme of the Republic of Macedonia for Environment and Climate Action and Multi-Annual Sectoral Operational Programme of the Republic of Macedonia for Transport.

It is envisaged for around 40 contracts to be financed within the environment and climate action sector in the period 2014 - 2020. To that end, IPA funds in the amount of EUR 86 million are allocated to the environment and climate action sector in the period 2014 - 2019. Among the more significant projects envisaged to be financed under the Programme are the following:

- contracts for construction works related to water treatment stations in Bitola and Tetovo,
- contracts for construction works related to upgrading the sewerage network in Bitola, Tetovo and Kicevo,
- contract for construction of wastewater collection system in Skopje,
- contracts for construction works and procurement of equipment for establishing an integrated and financially sustainable system for regional solid waste management in East and North-East Regions,
- contracts for construction works related to the closure of non-compliance landfills and dumpsites in East and North-East Regions.

It is envisaged that, in the transport sector, in the period 2014-2020, projects with a total amount of around EUR 108 million of IPA funds will be financed. Among the more significant projects envisaged to be financed under the Programme are the following:

- contract for construction of the rail section from Kriva Palanka to the Republic of Bulgaria, as part of Corridor VIII,
- contract for construction of road section Gradsko –Drenovo,
- contract for reconstruction of Raec – Prilep road section,
- contract for reconstruction of Kumanovo – Rankovce road section.

As of December 2017, 3 contracts were concluded in the amount of EUR 30 million. As regards the remaining projects, tender procedures are ongoing.

With respect to 2015, 2016, 2018 and 2019 Action Programmes, under which the entry tickets for the Union Programmes are financed, payment of entry tickets for participation in the respective programmes and agencies for the 2014 - 2020 Financial Perspective will be made in a decentralised manner through the National Fund within the Ministry of Finance, whereby, IPA contribution is planned within the budget of the Ministry of Finance, while the planning of the national contribution is an obligation of the competent institutions within their budget.

Union Programmes cover almost every area of the social and the economic life of European citizens: education, culture, youth, media, social affairs, development of small- and medium-sized enterprises, environment, transport, public health, legal cooperation, fight against violence, crime, terrorism, information society, customs duties and taxes. All legal entities may participate in the Programmes and, in certain cases, natural persons (individuals) from the participating countries may also participate therein.

To the end of participating in the Union Programmes, Republic of Macedonia signs Memorandum of Understanding/Accession Agreement, which legally regulates the participation in the Programmes. As regards the payment of entry ticket for participation in the Union Programmes, a possibility is opened to use the EU Pre-Accession Funds therefore. In the course of January 2018, Agreements on Regulation of Mutual Relations for Participation in the Union Programmes and Agencies were signed with respect to IPA 2 - 2014 - 2020 Financial Perspective.

Projects in the field of employment, social inclusion and education are financed within 2017 Action Programme, the aim of which is to reduce high unemployment rate, increase share on the labour market, in particular the one of young people and women, increase the access to quality education and training, improve the results and the skills and establish a modern and flexible social protection system. In order to achieve the general objective, several projects are envisaged in following areas:

- institutional strengthening of the capacities for sustainable sectoral reforms;
- strengthening the education and training system by reviewing the internal and the external quality assessment system in schools and improving and advancing the teacher professional development;
- improving the quality of preschool care and education and expanding the network of public institutions for preschool education in both the rural and the urban areas;
- enhancing the employment opportunities and enabling easier access to the labour market by improving the education system for adults, implementing active employment measures and improving the services provided by the Employment Agency intended for young unemployed persons and persons facing difficulties in finding a job;
- social protection, social inclusion and equal participation in the labour market and in the society.

IPARD 2 Programme supports projects that will provide for attaining EU standards introduced in the field of agricultural production, food processing and rural development. In the period 2014-2020, total IPA funds in the amount of EUR 60 million are made available to the Republic of Macedonia under this Programme.

2014 - 2020 IPARD Programme implementation is launched with 4 measures (Investments in physical assets of agricultural holdings, Investments in physical assets concerning processing and marketing of agricultural and fishery products, Farm diversification and business development and Technical assistance to Programme implementation), while preparation for accreditation of one more measure (Investments in rural public infrastructure) is commenced.

First public call was published in the course of 2017, whereby 1,648 applications were submitted, with the total requested amount of EUR 55,192,640 (IPA part).

5. Public Debt

Efficient public debt management is of essential importance, encompassing reduced risks when designing the debt structure and debt management policy, aimed at avoiding the possible inability to service the debt on regular basis and in a timely manner. The main objective is to secure the funds necessary to finance the budget deficit and repay the due debt liabilities, as well as funds for project financing, without increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country. Quality debt management, among other things, is determined on the basis of the institutional framework and the capacity to set and implement the public debt management policy. This implies clear definition of public debt management goals and measures.

The Public Debt Management Policy sets the framework for the Government of the Republic of Macedonia to act towards prudent public debt management in the medium term. Objectives of public debt management policy set in the Law on Public Debt ("Official Gazette of the Republic of Macedonia", no. 145/2014) are the following:

- financing the needs of the state with the lowest cost possible, in the medium and the long run and with a sustainable level of risk;
- identifying, monitoring and managing the risks which public debt portfolio is susceptible to; and
- developing and maintaining an efficient domestic financial market.

By adopting this Revised Strategy, the Ministry of Finance is given a framework to act towards prudent public debt management in the medium term, i.e. in the next three years. Above-mentioned goals will be attained by defining short- and medium-term limits of certain debt portfolio indicators.

General government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, public institutions established by the Republic of Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje. This is the definition of General government debt according to the national methodology envisaged in the Law on Public Debt. Central government debt accounted for 99.6% of the total general government debt at the end of the third quarter of 2018 and it is managed directly by the Ministry of Finance. As regards the other levels of debt, such as debt of municipalities and debt of public enterprises and state-owned companies, guaranteed by the state, the Ministry of Finance participates in the process of borrowing, but cannot influence the intensity of withdrawing the funds under the concluded loan agreements.

On 30 September 2018, the general government debt of the Republic of Macedonia amounted to EUR 4,302.5 million, i.e. 40.3% of GDP. The central government debt accounts for the most of the general government debt, amounting to EUR 4.288,2 million, while the debt of the municipalities amounts to EUR 14.1 million.

Pursuant to the Law on Public Debt, public debt is a broader definition of the debt, including the general government debt and the guaranteed debt of public enterprises and companies fully or dominantly owned by the state or by the municipalities. Public debt amounted to EUR 5,144.4 million on 30th September 2018, i.e. 48.2% of GDP.

Although the debt level increased in the past years, the Republic of Macedonia still remains to be moderately indebted country compared to the EU Member States. In fact, according to the Eurostat Release dated 23rd October 2018, average general government debt to GDP ratio in the EU 28 was 81.0% at the end of the second quarter in 2018.

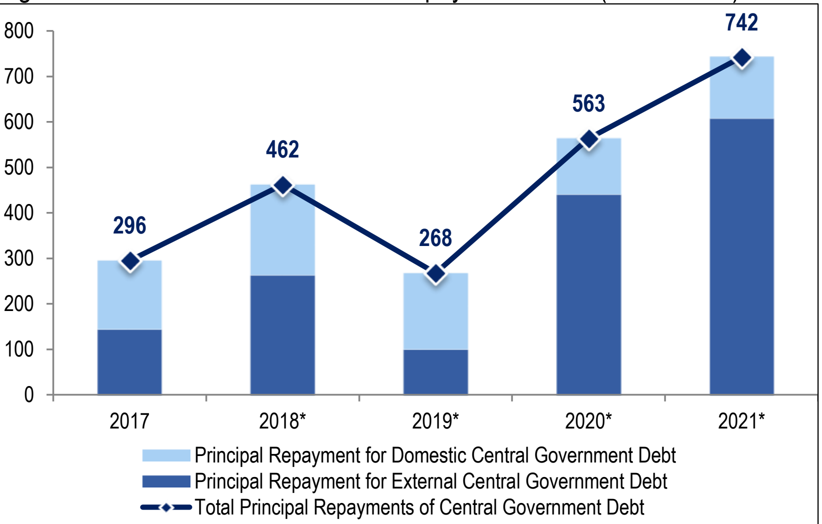
From the point of view of the interest structure, fixed - variable interest rate ratio was 76:24 respectively at the end of the third quarter in 2018. As regards currency composition, debt denominated in domestic currency accounted for 21.4% in the total general government debt portfolio, while share of foreign currency denominated debt was 78.6% (including government securities with FX clause issued on the domestic market), whereby euro-denominated debt accounted for the most with 72.3%, the share of SDR was 5.0%, Japanese Yen-denominated debt accounted for 1.0% and US dollar-denominated debt accounted for 0.3%.

Special emphasis in the past period was put on developing the domestic government securities market by issuing government bonds with longer maturity. This has contributed to its deepening and extending the average time to maturity of the domestic debt portfolio. The average time to maturity of the domestic debt portfolio of the central government, which includes continuous government securities and structural bonds, at the end of 2012 was 450 days, while on 30th September 2018, ATM was 2,090 days. In addition, the Ministry of Finance has continued its policy of lower auction frequency, whereby the auction calendar for the first and the second quarter in 2018 envisages two auctions per month. Hence, the Ministry of Finance expects for secondary trading with government securities to be encouraged, where investors, needing liquid funds with shorter maturities than the ones offered at the regular auctions, will participate. In addition, in conditions of stable market trends and continuously relatively high demand for government securities, interest rates on government securities have dropped since the beginning of 2018, thus providing for lower borrowing costs.

5.1 Projections and Limits on General Government and Public Debt Level and Structure

Investments launched in the past period in the field of road and rail infrastructure, water supply and sewerage, sports facilities, education, health, energy, construction of the National Gasification System, as well as other projects that are in line with the Programme of the Government of the Republic of Macedonia, are expected to continue in the 2019 - 2021 period. The projects, co-financed with foreign loans, will be implemented by the state administration bodies, strongly committed not to jeopardise the long-term sustainability of the debt level of the country. In addition, part of the borrowing is aimed at covering the budget deficit, i.e. providing for smooth Budget execution. In addition, part of the borrowing will also be intended for repayment of debt liabilities falling due in the coming period (Figure 12).

Figure 12. Central Government Debt Repayment Profile (EUR million)



Source: Ministry of Finance and projections of the Ministry of Finance (*)

In order to ensure sources of financing of the needs of the state with the lowest costs in the medium and the long run with a sustainable level of risk, public debt management policy defines several medium-term and short-term limits, in line with the Law on Public Debt.

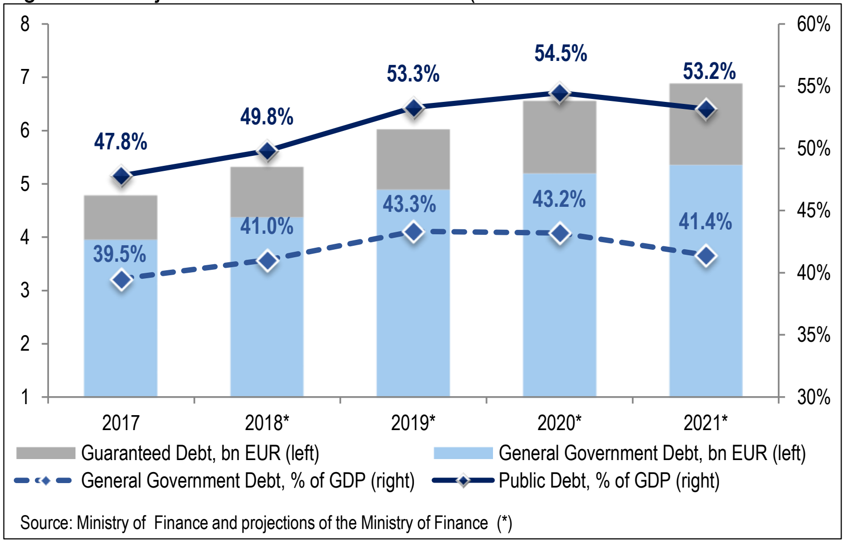
5.1.1 Medium-Term Limits

Medium-term limits are used to compile the framework for the movement of public debt in the 2019 – 2021 period. Such limits define the maximum sustainable level of total public debt in relation to GDP and the level of guaranteed public debt in relation to GDP. In addition, in order to reduce the risk factors affecting the total public debt portfolio, medium-term limits on currency and interest structure of the general government debt are also determined.

In order to keep a sustainable level of public debt, without disrupting the fiscal sustainability, the limit on the total public debt level in the medium and long run is set not to exceed 60% of GDP.

The public debt level is considered sustainable if it enables a timely servicing of the debt liabilities coming due in the longer run, which depends on several factors such as: the level of development of the domestic financial market, the liquidity of the international capital market, the rate of economic growth, the inflation rate, the level of budget deficit/surplus, etc. On the basis of the medium-term budget framework, which implies the need for budget deficit financing on the medium term, the needs for repayment of debt liabilities coming due, as well as the implementation of the projects outside the central government, the public debt in the medium run will experience a moderate increase, but will still be within adequate framework, i.e. it will not jeopardise debt sustainability (Figure 13). More precisely, moderate increase of the total public debt is expected on the medium term to 54.5% of GDP in 2020, followed by a decline to 53.2% of GDP in 2021, which is significantly below the limit on the medium- and long-term level of the public debt.

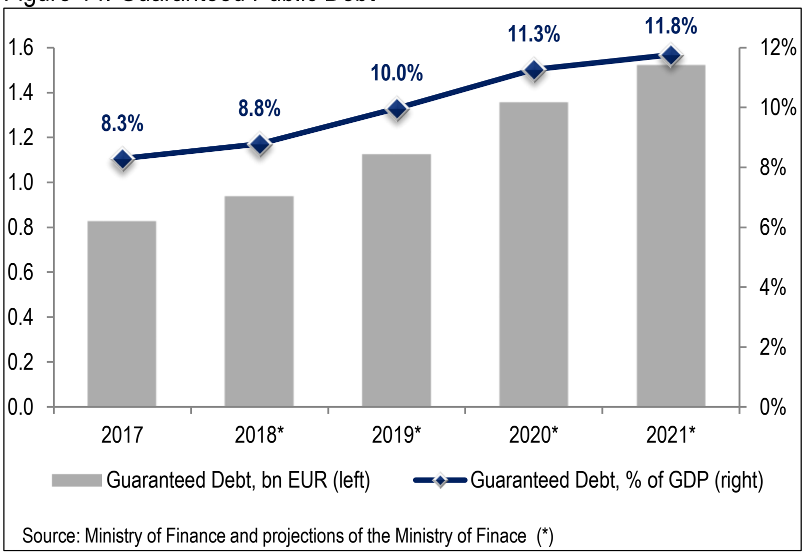
Figure 13. Projections on Total Public Debt (General Government Debt and Guaranteed Debt)



Issued sovereign guarantees are a contingent liability for the budget, i.e. there is a risk of increased costs related to servicing in case the guarantees are activated. Therefore, the sustainable level of issued guarantees in the medium term is of great importance for the Ministry of Finance. In addition, when selecting the projects for which a sovereign guarantee will be issued, special emphasis is put on self-sustaining projects, which generate revenues, support the economic growth and will provide for boosted competitiveness of the national economy in the medium term, which are in line with the strategic priorities of the Government of the Republic of Macedonia, and justify the purpose which the funds are used for. In accordance with this, the limit on the level of guaranteed public debt is defined not to exceed 13% of GDP in the 2019 -2021 period.

On the basis of the analyses made on the movement of the projected guaranteed public debt in the 2019-2021 period (Figure 14), it is expected to moderately increase as a result of the disbursement of loan proceeds under the projects mainly in the road infrastructure, implemented with loans for which sovereign guarantee is issued. Related to this, the level of guaranteed debt throughout the whole period is below the defined maximum limit.

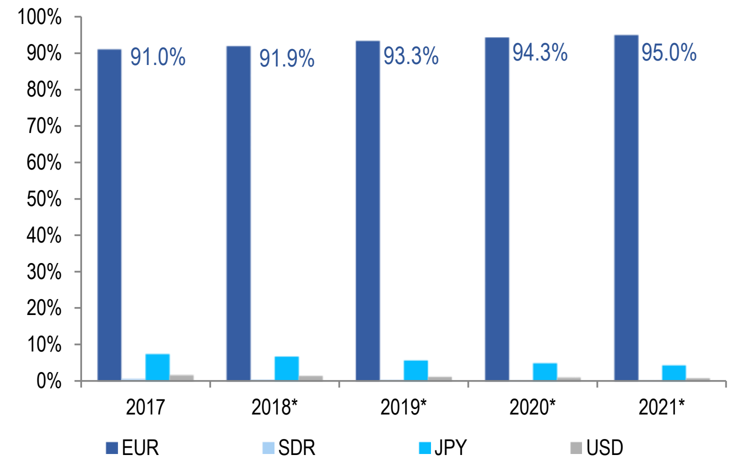
Figure 14. Guaranteed Public Debt



Changes in the exchange rate could largely affect, i.e. increase, the projected costs for repayment of debt denominated in foreign currency. However, taking into account the fact that since 1995 the Republic of Macedonia applies a de facto fixed exchange rate regime of the Denar in relation to the German Mark, and since 2002 onwards in relation to the euro, and that this policy will continue in the future, the exposure to such a risk would be measured as a share of the euro in the total debt portfolio. Consequently, the limit on the currency structure of the general government debt - the minimum threshold of euro-denominated debt in the total general government debt portfolio denominated in foreign currency is defined to be 85% in the period 2019-2021.

A dominant share of euro-denominated debt is evident in the currency structure projections, experiencing moderate increase in the medium term as a result of the commitment of the Ministry of Finance for the new external borrowing to be denominated in euros (Figure 15). In the 2019-2021 period, the share of euro-denominated debt in the total general government debt portfolio denominated in foreign currency is significantly above the minimum threshold. The small share of other currencies (lower than 10% of the total general government debt denominated in foreign currency) is related to loans denominated in US dollars, Japanese Yen and Special Drawing Rights for credit lines. These loans were mainly concluded in the past and they are repaid in the period covered in this Strategy.

Figure 15. Currency Structure of General Government Debt Denominated in Foreign Currency

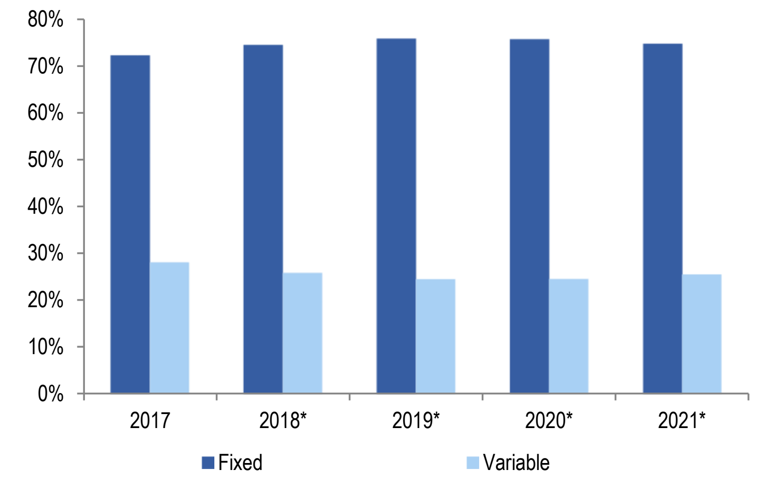


Source: Ministry of Finance and projections of the Ministry of Finance (*)

In order to protect the general government debt portfolio against possible future market shocks, i.e. unfavourable changes of interest rates that directly lead to increase of the costs of the Budget of the Republic of Macedonia, maintaining an optimal interest rate structure of the general government debt portfolio is one of the objectives of the debt management. Therefore, the limit on the interest rate structure of general government debt - the minimum threshold of debt with fixed interest rate is determined to be 60% for the 2019-2021 period.

Taking into account the current structure of the general government debt portfolio, as well as the medium-term projections, in the 2019-2021 period the fixed interest rate debt is significantly higher than the defined minimum threshold (Figure 16). This reflects the commitment of the Ministry of Finance to issue long-term securities on the domestic market, as well as the commitment to borrowing on the basis of instruments with fixed interest rate on the international capital market.

Figure 16. Interest Rate Structure of General Government Debt



Source: Ministry of Finance and projections of the Ministry of Finance (*)

5.1.2 Short-Term Limits

In line with the medium-term targets on determining both the optimal level and the structure of public debt portfolio, short-term limits, i.e. limits pertaining only to 2019, are also defined. These limits help to determine the maximum amount of net borrowing in 2019, as well as the maximum amount of net borrowing on the basis of guarantees issued in the course of the same year.

Net borrowing in 2019 includes the planned borrowing within the general government debt, reduced by its repayments. Related to this, sources of financing secured through the borrowing in 2018 will also be allocated for partial financing of the repayments falling due in the first quarter of 2019. The short-term maximum limit on net borrowing (domestic and external) on the basis of general government debt in 2019 is set at EUR 575 million.

In order to reduce the risk of contingent liabilities in the public debt portfolio, the annual amount of net borrowing on the basis of guaranteed debt of public enterprises is defined. Investments in road infrastructure, implemented with loans for which a sovereign guarantee is issued, are expected to intensify in 2019. Therefore, the guaranteed debt stock is expected to increase, and the limit on maximum net borrowing on the basis of guaranteed debt in 2019 is set up to EUR 250 million.

Thresholds on the debt refinancing indicator (showing the average time for debt re-financing), as well as on the indicator of the average time to re-fixing (showing the average time for changing the interest rates of the debt portfolio) are calculated within this Strategy. More precisely, in order to protect the central government debt portfolio against the re-financing risk, the limit the on re-financing risk - the minimum threshold of "average time to maturity" indicator in 2019 is determined to be 3 years. Further on, in order to protect the central government debt portfolio against the interest rate risk, the limit on the risk for interest rate changes - the minimum threshold of the "average time to re-fixing" indicator in 2019 is determined to be 2 years[4].

5.2 Public Debt Risk Management

In conditions of large oscillations of economic variables, the need arises to actively manage risks to which the public debt portfolio in the Republic of Macedonia is exposed. The risk management policy is of crucial importance for public debt management, being the main link between the proposing, designing, adopting and implementing the Public Debt Management Policy. The development of this policy is a challenge for the debt management and it comprises identifying, measuring and managing the risks, taking into account the trade off between risks and costs.

The main objective of public debt management is to ensure that government financing needs and liabilities are covered with the lowest costs in the medium and long run with an acceptable risk level. From the point of view of the risks the debt portfolio of the general government debt of the Republic of Macedonia faces, certain improvement in indicators on the re-financing risk and the interest rate risk can be observed. In fact, as a result of the commitment of the Ministry of Finance to develop the domestic government securities market, the process of restructuring the government securities portfolio has been underway since 2012, with newly issued securities with longer maturity, while the issue of short-term instruments has been gradually reduced. This strategy resulted in a significant improvement in terms of re-financing risk and interest rate risk regarding the domestic debt portfolio. As regards the other risks, debt management in the medium term will be focused on maintaining the lowest cost possible under a sustainable level of risk.

The main risks identified in managing the debt portfolio of the Republic of Macedonia are as follows:

1. Debt re-financing risk:
2. Market risk, involving the following risks:
   - Interest rate risk
   - Exchange rate risk.
3. Risk associated with the contingent liabilities and
4. Operational risk.

1. The refinancing risk is managed by preventing a considerable part of the liabilities to fall due at once at any time and providing an evenly distributed maturity of debt-related liabilities. The exposure of public debt

[4] The debt refinancing risk, as well as the interest rate risk, are presented in more details in Section 5.2.

portfolio to re-financing risk is measured by the debt repayment profile and the "average time to maturity" indicator. The greater the value of this indicator, the lesser the uncertainty, i.e. the re-financing risk.

Average time to maturity as regards the central government debt is expected to increase in the 2019-2021 period, from 4.2 years as projected for the end of 2019 to close to 4.6 years in 2021 (Table 9). As regards the domestic debt, maturity extends as a result of the commitment of the Ministry of Finance to focus on deepening the domestic securities market. In fact, particular emphasis was put on increased issuance of long-term securities, as well as extending the maturity and volume of the existing government securities portfolio by issuing 2-, 3-, 5-, 10- and 15-year government bonds, while a 30-year government bond was issued for the first time in April 2018. The re-financing risk is expected to decline in the period 2019 - 2021 as a result of the extended maturity of the external debt portfolio. These projections point out that average time to maturity in the period 2019 - 2021 is significantly above the defined limit on the minimum threshold for 2019.

Table 9. Average Time to Maturity - ATM (years)

	2019	2020	2021
Central Government Debt	4.2	4.4	4.6
Domestic Debt	4.3	4.5	4.3
External Debt	4.2	4.4	4.7

Source: Simulations of the Ministry of Finance

Taking into consideration the projections for the repayment profile in the coming years (Figure 12), it can be noticed that liabilities on the basis of repayment of the external and the domestic general government debt increase. A particular challenge for efficient management of the re-financing risk is expected in 2020 and 2021, when the Eurobonds issued in 2014 and 2015 (in the total amount of EUR 678 million), as well as the second instalment on the basis of the loan secured under Policy Based Guarantee (PBG) from the World Bank (in the amount of EUR 155 million), fall due for repayment.

The sixth Eurobond, in the amount of EUR 500 million, with a 7-year maturity and historically lowest interest rate of 2.75%, was issued in January 2018, reflecting the exceptionally high confidence of the international investors in the perspectives of the Macedonian economy, as well as the favourable conditions on the international capital market. In order to reduce the re-financing risk in 2020, the Ministry of Finance made an early repayment of part of the previously issued Eurobond with an interest rate of 4.875%, falling due in 2020 in the nominal amount of EUR 91.7 million. The early repayment smoothened the redemption profile by reducing the refinancing amount in 2020, while also generating savings on interest costs from the Budget of the Republic of Macedonia. In order to further smoothen the redemption profile and reduce the re-financing risk, as well as generate additional savings, the Ministry of Finance will continue to consider the possibility for debt restructuring in the coming period by actively managing the debt portfolio through liability management activities.

2. The market risk is determined by the exposure of debt portfolio to economic variables, especially the changes of interest rates on the domestic and the international capital markets and the movements in foreign exchange rates. Identifying and managing market risks in the Republic of Macedonia is crucial for the public debt portfolio since these risks are determined mainly by external factors, i.e. variations in interest rates on the international financial markets where, due to their constant oscillations, medium- and long-term trend is very difficult to project.

Measuring and managing the interest rate risk is especially important in the countries in which domestic financial markets are underdeveloped and the financing needs are covered from external sources under non-concessional terms, where exposure to interest rate risk is greater. Changes of interest rates in the domestic and international markets affect the debt-related costs, especially when fixed interest rate debt should be refinanced or when the interest is re-set for variable interest rate debt. Therefore, there is a close connection between the interest rate risk and the debt re-financing risk.

The ATR (average time to re-fixing) indicator measures the average time to interest rate change. A higher value of this indicator shows that a larger portion of the debt portfolio will not be subject to a significant interest rate change and that such portfolio is a lower-risk portfolio. In the coming period, it is expected for the interest rate risk to drop by a slight increase of the average time to re-fixing indicator in the period 2019 - 2021 (Table 10). Increase in the average time to re-fixing is due to the increase at this indicator at both the domestic and the external debt. In fact, the increase of the ATR indicator is in line with the commitment to borrow on the basis of fixed-interest instruments on the domestic and the international capital markets in the coming period.

These projections point out that average time to re-fixing in the period 2019 - 2021 is significantly above the set limit on the minimum threshold for 2019.

Table 10. Average Time to Re-Fixing (years)

	2019	2020	2021
Central Government Debt	3.7	3.9	4
Domestic Debt	4.3	4.5	4.3
External Debt	3.4	3.6	3.8

Source: Simulations of the Ministry of Finance

Exchange rate risk refers to the debt indexed or denominated in foreign currency. A higher share of the debt denominated in foreign currency points out to a higher exchange rate risk. This risk is crucial for the developing countries where external debt is fully indexed and also where a higher share of the domestic debt is denominated in foreign currency.

Changes in the exchange rate may largely affect, i.e. increase the envisaged costs for repayment of public debt denominated in foreign currency. However, taking into account that the Republic of Macedonia applies a de facto fixed exchange rate of the Denar to the euro, the exposure to such a risk would also be measured as a share of the euro in the total general government debt portfolio, which was actually dominant currency with 72.3% share in the total debt structure on 30th September 2018.

3. The risk related to contingent liabilities - as a result of the projected investments, which are exceptionally important for the further development of the energy sector and the infrastructure, a moderate but controlled increase of the level of the guaranteed public debt is projected in the following period. In order to ensure more favourable financing terms and conditions by the creditors, the state issues a sovereign guarantee, after carrying out analyses of the borrower and its ability to independently service its future liabilities.

Liabilities on the basis of guaranteed debt in relation to GDP falling due in the period 2019-2021 have a moderately upward trend, but borrowers will independently service such liabilities. In order for the central government budget not to be exposed to the risk of calling-up guarantees, the process of issuance of new guarantees is strictly regulated and is subject to certain criteria that claimants of guarantees should meet.

4. The operational risk includes the settlement risk and the error risk. The settlement risk occurs if numerous non-automated activities are used during data processing, while error risk is closely related to the manner of segregating the tasks related to the execution of transactions and their settlement across the units within the institution in charge of debt management. Public debt management is carried out with an IT system and adequate software platform, thus significantly reducing the risk of human errors. Measures to apply the “four eyes” principle (at least two executors of each operation) are also undertaken in a timely manner, in order to avoid the risk from untimely performance of the tasks in case the responsible person is prevented from fulfilling the working tasks.

5.3 Development of Government Securities Market

Development and maintenance of an efficient and liquid domestic government securities market is an additional goal in public debt management in most of the developed economies and economies in transition. In order to ensure a stable and reliable source of financing of the budget needs, it is necessary for the domestic financial market to be deep enough so as to respond to the needs of the country in conditions of external shocks. In that way, budget needs are met without causing any crowding out effect. In addition, a developed domestic financial market enables a growing number of investors and a creation of a reference yield curve for the overall economy.

The Ministry of Finance will continue to regularly issue government securities on the domestic market in the coming period. The purpose is, by regular issuance of government securities, to provide for more efficient financing of budget needs in the short and the long run, reducing the financing costs, as well as encouraging further development of the financial market in the Republic of Macedonia.

In the upcoming period, the Ministry of Finance will intend to retain regular issuance of treasury bills, as well as stay focused on expanding the maturity structure of the portfolio of government securities with longer maturities. Thus, particular emphasis will be put on extending the maturity of the existing government securities portfolio.

This measure will be implemented through the following activities:

- promotion and primary issuance of government bonds with 30-year maturity, on quarterly basis and in a standardised amount;
- issuance of government bonds with 15-year maturity at least 4 times a year;
- issuance of government bonds with 10-year maturity at least 4 times a year;
- issuance of government bonds with 2-, 3- or 5-year maturity on regular basis;
- reduction of the share of government securities with FX clause in the total issued government securities.

Pension funds, as well as commercial banks and insurance companies, are expected to show particular interest in investing in long-term securities issued by the Republic of Macedonia. In order to improve and further develop the government securities market, activities aimed at expanding the investor base will be continued, by considering the possibility to introduce new financial instruments adequate to the needs of the market participants, as well as carrying out marketing campaign in front of different target groups of investors and maintaining regular dialogue with all participants on the government securities market.