

Republic of Macedonia
Ministry of Finance

**Semi-Annual Report on Execution of the
Budget of the Republic of Macedonia
January – June 2017**

Summary

- Real GDP growth in Q1 2017 amounted to 0.0% on annual basis, whereby domestic demand had positive contribution to economic growth, while contribution of net export was negative.
- Number of employees in Q1 2017 was higher by 2.7% compared to the same quarter in 2016. Number of unemployed persons dropped by 5.5%, which resulted in reduction of unemployment rate to 22.9%.
- Inflation rate in the first half of 2017 accounted for 0.9%, being mainly due to the higher prices of oil derivatives by 10.8%.
- In the period January - June 2017, budget deficit amounted to Denar 8.3 billion.
- Total budget revenues were collected in the amount of Denar 86.4 billion, i.e. 46% compared to the projected ones under the 2017 Budget.
- In the period January- June 2017, total budget expenditures were executed in the amount of Denar 94.7 billion or 45.9% of the annual projections.

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1. International Economic Trends

Global economy in the first half of 2017 was featured with greater confidence of economic entities and creation of favourable financing conditions on the international market, which together with the growth of Manufacturing and trade is expected to have positive effects on the global economic growth and its increase to 2.7% in 2017. Growth was mainly driven by the intensified economic activity in the fast-growing economies and developing countries, being to a great extent due to the increased trade activity in conditions of disappearance of the export obstacles of these countries and maintenance of strong economic activity of the importing countries. However, global economy remains vulnerable to risks throughout the year, such as increased trade protectionism, political insecurity and distortion of financial markets globally.

Positive economic trends were also seen in the developed countries, such as strengthened investment activity and excessive growth of private consumption, which is expected to contribute to enhanced economic growth in 2017, projected at 1.9%. This growth rate is also projected for the European economy, whereby intensified economic activity was recorded in the first quarter of the year, surging by 2.4%, being, to a great extent, a result of the stronger growth of German economy by 2.9%, as the largest economy in the European Union. Main driving forces of the stronger growth of European economy in this period was the intensified activity of Manufacturing and the stronger export of goods in conditions of higher both employment and inflation. However, despite the inflation growth, the core inflation remained low and below the projected level by the European Central Bank, providing for smooth implementation of the accommodative monetary policy to the end of stimulating the domestic demand. On the other hand, the effects of the fiscal policy throughout the year are expected to remain neutral. Accordingly, growth by the end of the year would be supported by the expected increase of private investments and increase in export in conditions of better utilization of production capacities and higher profitability of corporate sector, whereby it could be limited by the reduced private consumption as a result of the decreased purchase power of households stemming from higher inflation.

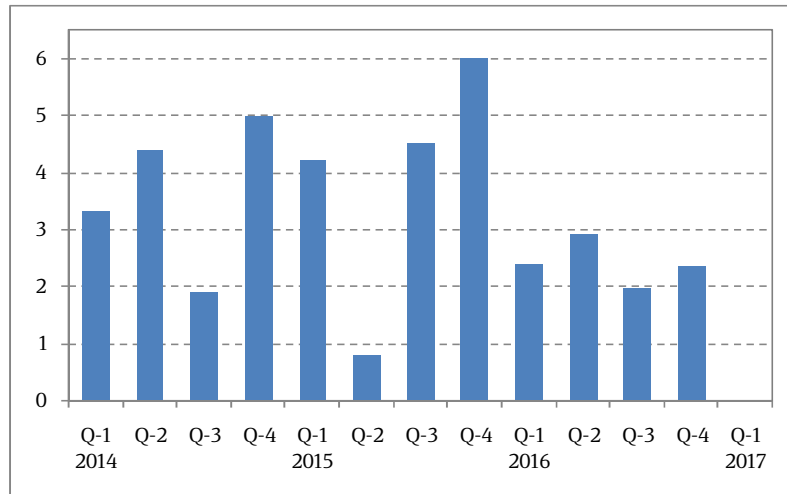
Current trends in the global, particularly the European economy, are expected to also have positive effect on Macedonian economy, through increased both external demand and export of goods.

2. Macroeconomic Trends in the Country¹

2.1. Gross Domestic Product

Real GDP growth in Q1 2017 amounted to 0.0% on annual basis, whereby domestic demand had positive contribution to economic growth, while contribution of net export to growth was negative.

Chart 1. Real GDP Growth Rate (%)



Source: State Statistical Office

Consumption registered 2.3% growth in real terms in Q1, as a result of the growth of both private consumption and public consumption. Private consumption experienced 2.7% growth in real terms as a result, above all, of the increase of household disposable income, in conditions of increase of employment and wages, and the crediting to households to a lesser extent. Public consumption surged by 0.7%. Gross investments increased by 0.6% in real terms in Q1, in conditions of increased execution of budget capital expenditures and stronger import of capital goods.

Export of goods and services in Q1 increased by 9% in real terms in Q1, in conditions of favourable trends of external demand, i.e. 2.4% growth of the economic activity in the EU, as well as increase of base metals on the global markets. According to monthly data, export growth was, above all, a result of the increased export of machinery and transport equipment by 19.0% and chemical products by 14.9%. Import of goods and services experienced higher growth compared to export, surging by 10.7% in real terms, hence net export had negative contribution to the economic growth. Stronger import was mainly a result of the import of intermediary goods, surging by 18.3%.

¹ Recently available data are used in the Report. As regards GDP and unemployment, data as of Q1 inclusive are available.

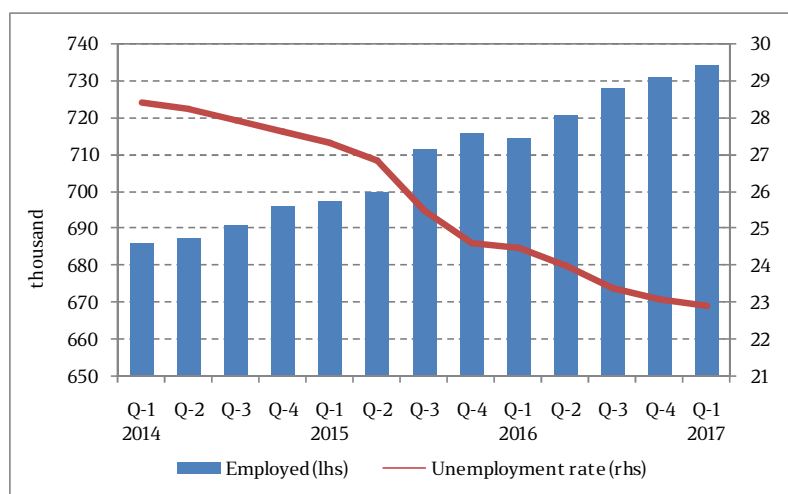
Analyzed by sectors, construction activity, being the driving force of economic growth over the past year, in Q1 2017, dropped by 6.3% on real basis, in conditions of decline in completed construction works. Drop was also registered in the services sector by 0.5%.

Agriculture sector registered growth of 1.1% in Q1. Industrial sector increased by 2.1%, whereby Manufacturing experienced 2.3% growth. In accordance with the monthly data on industrial production, favourable trends in the first three months of 2017 were also registered in Supply of electricity sector, while Mining had negative contribution to industry.

2.2. Labour Market

Positive trends on the labour market continued in Q1 2017 as well. According to the Labour Force Survey, number of employed persons was higher by 2.7%, i.e. by 19,608 persons compared to Q1 2016. Thus, employment rate in Q1 2017 reached 43.7%, being higher by 1.1 percentage points (p.p.) compared o to Q1 2016. Higher employment was also seen at the services (being the highest in the trade activity) and the industrial sectors (being the highest in Manufacturing), while construction sector experienced reduced employment, while the number of employed persons in agriculture sector remained unchanged.

Chart 2. Number of Employed and Unemployment Rate



Source: State Statistical Office

Employment rate in Q1 2017 was the highest at the primary age group (25-49 years), accounting for 61.9%, being lowest at the youngest age group (15-24 years), accounting for 18.6%, whereby it grew by 3.1 p.p. compared to the same period last year. Most of the employees (54.6%) were with completed secondary education (three- and four-year secondary education), followed by the persons with completed community college or higher education level, accounting for 25.7% of the total employed persons, while 19.7% were persons with primary education or less.

Employment increase was accompanied by drop of the number of unemployed persons, being lower by 5.5% or 12,785 persons on annual basis, by which unemployment rate in Q1 2017 decreased to 22.9%, being lower by 1.6 p.p. compared to the same quarter of 2016, while compared to the previous quarter, it was lower by 0.2 p.p..

Unemployment rate was the highest at the youngest age group (15-24 years), accounting for 44.4%, being lower by 5.8 p.p. compared to the same period last year. Unemployment rate was the lowest at the age group from 50 to 64 years, accounting for 16.6% (being lower by 1.2 p.p. compared to Q1 2016). As for the primary age group (25-49 years), unemployment rate accounted for 22.4%. Analyzed according to education, most of the unemployed persons are with completed secondary education (53.0%), followed by the persons with primary education or less (25.3%) and the persons with completed community college or higher education level (21.1%).

Activity rate in Q1 2017 accounted for 56.7%, being lower by 0.3 p.p. compared to the same quarter of last year, i.e. total labour force was higher by 0.7% (6,823 persons). According to the age groups, the activity rate was highest at the primary age group (25-49 years), accounting for 79.8%, while as for the youngest ones, it accounted for 33.5%, being higher by 2.3 p.p. compared to Q1 2016.

Administrative data indicate that the number of unemployed persons registered in the Employment Agency at the end of the first half of 2017, amounted to 195.3 thousand, being a decrease by 3.3% compared to a year earlier. Out of the total number of registered unemployed persons, 50.6% are active job seekers.

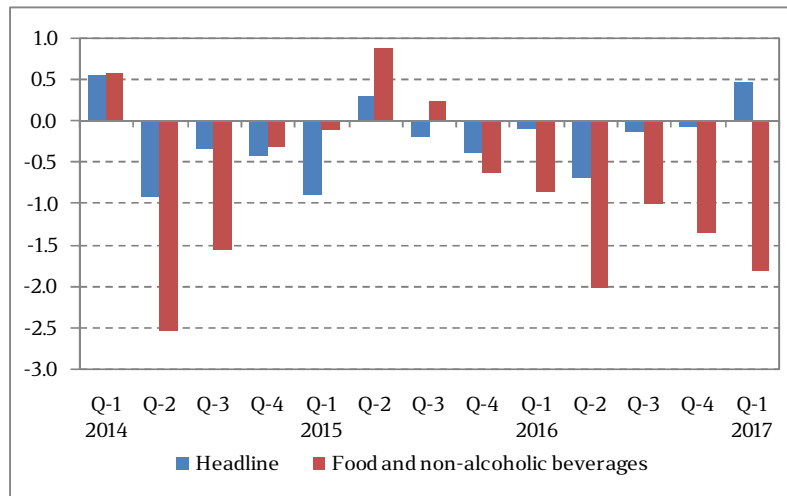
In the period January – June 2017, Employment Agency of the Republic of Macedonia registered total of 92,116 new employments. Total number of newly employed persons in this period was lower by 0.3% compared to the same period in 2016. As regards the total number of newly employed, 42.0% was engaged on permanent basis, while the rest of the employed were engaged on temporary basis and as seasonal workers. Out of the total number of newly employed persons, 22.3% was from the unemployed records.

2.3. Inflation, Wages and Pensions

Inflation rate in the first half in 2017 amounted to 0.9%. Increase of consumer prices in this period was mostly due to the higher prices of oil derivatives by 10.8%, in conditions of downward pressure on the prices of food products, being lower by 1.0%.

Average net wage in the period January - April 2017 grew by 2.0% in nominal terms, i.e. by 1.3% in real terms. Net wages in the agriculture sector in this period picked up by 1.7%, experiencing 1.9% growth in the industry sector, while they surged by 1.6% in the services sector.

Chart 3. Inflation Rate (y-o-y)



Source: State Statistical Office

Average gross wage in the period January - April 2017 grew by 2.1% in nominal terms, i.e. by 1.5% in real terms. Average paid monthly gross wage per employee in the same period in the agriculture sector increased by 2.2%, surging by 1.9% in the industry sector, while it grew by 1.8% in the services sector.

Average pension at the end of the first half in 2017 amounted to Denar 13,853, being higher by 5.7% compared to the same period in 2016. Ratio between average pension and average net wage in April 2017 was 61.1%, decreasing by 2.7 p.p. compared to the same period in 2016.

2.4. Balance of Payments

BOP current account deficit in the first four months in 2017 amounted to EUR 154 million (1.5% of the projected annual GDP), being at almost the same level as the deficit realized in the same period in 2016. During this period, the surplus on the services account increased, while growth was also seen at the inflow of private transfers from abroad, while the deficit on the goods account deteriorated.

Inflow of FDIs in the first four months of 2017 amounted to EUR 175 million (1.7% of the projected annual GDP), being higher by EUR 8 million compared to the same month in 2016. Most of the FDIs in this period, i.e. two thirds, was in the form of reinvested profit.

2.5. Revision of 2017 Macroeconomic Projections

Data on the economic growth in the first quarter of 2017 and the last high frequency data reflecting the effects from the prolonged political crisis on the economy, led to the need to revise the GDP growth projections to 2.2% in 2017 compared to the initial projection of 3.0%.

Thus, the biggest revision was made at the growth of gross investments, which is expected to amount to 1.0% in real terms, compared to the expectations for growth of 4.5% in line with the previous projection, being mostly due to the refraining from investments of the private sector in the past months. However, stabilization of the political situation, accompanied by the gradual return of the optimism at the private investors and the execution of public capital expenditures are expected to contribute to positive performance of gross investments at the end of the year.

Recovery of the economic activity of the EU as the major trade partner of Macedonia, is expected to continue with somewhat stronger intensity in relation to the previous expectations, whereby the growth in the EU is expected to reach 1.9% and 1.7% in the Eurozone. Prices of base metals on the global market experienced significant growth of 10% in the first quarter of the year, retaining such trend, i.e. 16% growth in 2017 in line with the World Bank's projections in conditions of greater demand for metals. Thus, prices of copper and lead are expected to surge by 18%, while the price of zinc is expected to increase by 32%, being important for the metal industry as traditional export sector in Macedonia.

Table 1. Initial and revised basic macroeconomic projections for 2017

	Initial projections	Revised projections
Gross Domestic Product, real growth rate	3.0	2.2
Private Consumption	2.1	2.4
Public Consumption	1.3	1.6
Gross capital formation	4.5	1.0
Export of goods and services	6.0	7.2
Import of goods and services	4.7	5.5
Inflation rate	1.0	1.0

Source: Ministry of Finance

Such expectations in the international environment, coupled with downward risks, are expected to have significant effects on the foreign trade of the country in relation to the initial projections. In conditions of increased export potential and favourable trends in the international environment, export of goods and services remains to be the significant driving force of economic growth in 2017, whereby stronger export activity is expected in relation to the initial projections, i.e. 7.2% growth in real terms. Contribution of net export to the economic growth will be neutral, under the projected growth of import of goods and services at 5.5% in real terms.

Private consumption, which proved to be resilient to the domestic political developments in the past period, is expected to continue to encourage the growth in 2017. Revised projection for private consumption growth accounts for 2.4% in real terms, being as a result of the expected increase of disposable income of households, in conditions of projected increase in the number of employees and wages, supported by

the expected growth of crediting to households. Increase of the minimum wage, which will commence as of September 2017, will have positive contribution to the private consumption growth by the end of the year. Real public consumption growth is expected to account for 1.6% in 2017.

Projection for inflation rate for 2017 has not been changed, i.e. growth of consumer prices is expected to account for 1.0%.

Positive trends on the labour market are envisaged to continue, whereby the average unemployment rate in 2017 is expected to reduce to 22.5%.

In 2017, BOP current account deficit is expected to remain low, accounting for 2.3% of projected GDP, in conditions of slight decrease of the trade deficit level and moderate growth of private transfers. Envisaged trends of balance of payments will result in maintaining the foreign currency reserves at an adequate level.

3. Fiscal Sector

3.1 Budget of the Republic of Macedonia

Under 2017 Budget of the Republic of Macedonia² (Budget of RM), total revenues and total expenditures are projected in the amount of Denar 187.6 billion and Denar 206.2 billion respectively, while the deficit is projected in the amount of Denar 18.6 billion, core budget deficit out of which amounts to Denar 13.4 billion, deficit on the self-revenue accounts is in the amount of Denar 5.3 billion, deficit of Pension and Disability Insurance Fund is projected in the amount of Denar 10 million, whereas it is projected for the Health Insurance Fund to have balanced budget and the Employment Agency to generate surplus in the amount of Denar 122 million.

² Pursuant to 2017 Budget of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia", no. 191/2016).

Table 2. Budget Execution for the period January – June 2017 (Denar million)

Budget of RM	2017 Budget	January	February	March	April	May	June	Jan-June 2017	%
TOTAL REVENUES	187,612	12,584	13,310	16,840	15,053	15,356	13,225	86,368	46.0%
Taxes	108,867	7,582	7,400	9,892	9,275	9,632	7,520	51,301	47.1%
Contributions	51,879	3,651	4,246	4,575	4,272	4,191	4,531	25,466	49.1%
Non Tax Revenues	17,516	1,124	1,392	1,883	768	1,008	794	6,969	39.8%
Capital Revenues	2,613	65	24	32	76	49	113	359	13.7%
Foreign Donations	6,287	161	246	449	646	405	255	2,162	34.4%
Revenues from repayment of loans	450	1	2	9	16	71	12	111	24.7%
TOTAL EXPENDITURES	206,219	14,723	14,845	16,733	15,082	17,089	16,202	94,674	45.9%
Current Expenditures	179,265	13,420	13,276	14,549	13,727	15,730	15,288	85,990	48.0%
Wages and Allowances	26,771	2,170	2,219	2,198	2,157	2,162	2,237	13,143	49.1%
Goods and Services	19,630	825	1,295	1,602	1,371	1,214	862	7,169	36.5%
Transfers	124,649	9,564	9,502	10,293	9,987	12,132	11,860	63,338	50.8%
Interest	8,214	861	260	456	212	222	329	2,340	28.5%
Capital Expenditures	26,954	1,303	1,569	2,184	1,355	1,359	914	8,684	32.2%
BUDGET BALANCE	-18,607	-2,139	-1,535	107	-29	-1,733	-2,977	-8,306	44.6%
FINANCING	18,607	2,139	1,535	-107	29	1,733	2,977	8,306	44.6%
Inflows	37,132	2,448	2,086	208	533	2,760	5,059	13,094	35.3%
Other	0	0	0	3	0	76	0	79	
Foreign Loans	17,634	449	53	106	583	24	672	1,887	
Deposits	1,664	-452	2,016	-665	-174	1,881	3,178	5,784	
Sell of Shares	10	0	0	0	11	0	0	11	
Domestic borrowing	17,824	2,451	17	764	113	779	1,209	5,333	
Outflows	18,526	309	551	315	504	1,027	2,082	4,788	25.8%

Source: Ministry of Finance

In the period January - June 2017, budget deficit amounted to Denar 8.3 billion (Table 2). Under the Budget of RM, Core Budget deficit amounted to Denar 7.4 billion, deficit on the self- revenue accounts amounted to Denar 544 million, while the Funds ran a deficit of Denar 354 million.

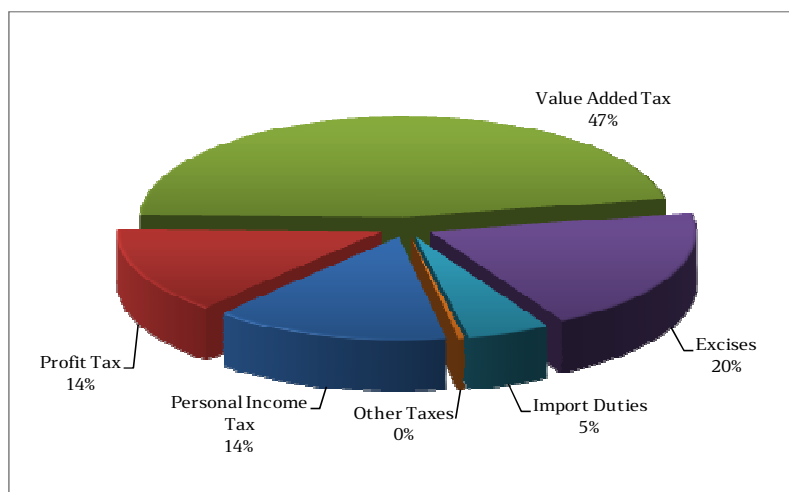
Total budget revenues were collected in the amount of Denar 86.4 million, i.e. 46.0% compared to the projected ones under the 2017 Budget. Within total revenues of the Budget of the Republic of Macedonia, Denar 76.8 billion was collected on the basis of tax revenues and social contributions, i.e. 88.9% of total genuine revenues. Tax revenues accounted for the most in the structure of total revenues with 59.4%, followed by revenues collected on the basis of contributions - 29.5%, non-tax revenues accounting for 8.1%, while capital revenues and other revenues accounted for 0.4% and 2.6% respectively.

In the period January - June 2017, total budget expenditures were executed in the amount of Denar 94.7 billion or 45.9% of the annual projections.

3.2. Core Budget Revenues according to the Economic Classification

Total Core Budget revenues as of June 2017 inclusive amounted to Denar 52.7 billion, accounting for 46.0% compared to the total revenues projected for 2017 in the amount of Denar 114.3 billion.

Chart 4. Structure of Collected Tax Revenues



Source: Ministry of Finance

Revenues in the amount of Denar 50.1 billion was collected or 47% out of the total tax revenues in the amount of Denar 106.2 billion projected for 2017, while non-tax revenues and capital revenues were collected in the amount of Denar 2.4 billion or 32% of the amount of Denar 7.6 billion projected for the whole year. Revenues on the basis of repayment of loans were collected in the amount of Denar 111 million.

Tax revenues accounted for 95% in the structure of total collected revenues, followed by non-tax revenues with 4%, capital revenues with 0.7% and revenues on the basis of repayment of loans with 0.3%.

Structure of collected tax revenues (Chart 4) shows that revenues on the basis of value added tax accounted for the most therein, amounting to Denar 23.4 billion or 47%. Revenues collected on the basis of paid excises amounted to Denar 9.9 billion or 20%, personal income tax revenues amounted to Denar 7.2 billion or 14%, profit tax revenues were collected in the amount of Denar 6.9 billion or 14%, revenues collected on the basis of import duties amounted to Denar 2.5 billion or 5% and other tax revenues were collected in the amount of Denar 189 million.

3.3. Revenues by Budget Users³

Budget revenues, i.e. inflows to the Central Budget, are generated mainly through the Ministry of Finance, Functions of the State, which amounted to Denar 60.6 billion in the period January - June 2017, i.e. 90.5% of the revenues of all budget users, accounting for 39.2% of the annual projections of this budget user.

Within the organizational code Ministry of Finance - Functions of the State, tax revenues accounted for the most - 82.8% of total revenues and inflows to this budget user, whereby their collection reached 47.2% of the annual projections by June. Inflows

³ Data are preliminary and not consolidated, and they also include the inflows of funds.

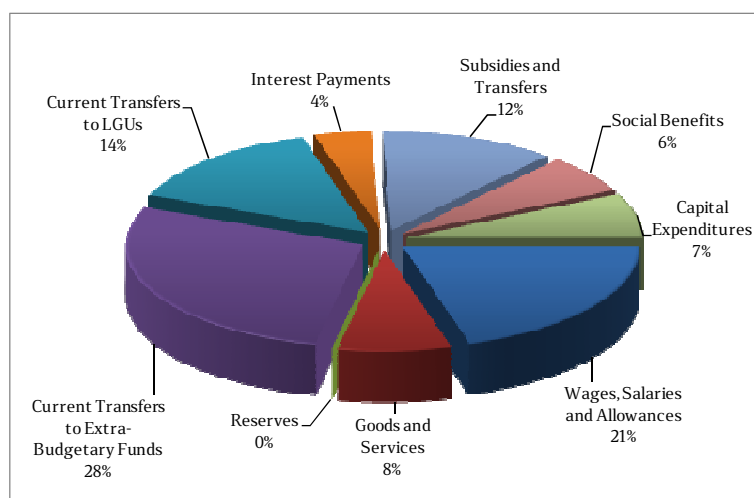
on the basis of domestic borrowing in this period amounted to Denar 5.3 billion, accounting for 8.8% of the total amount of collected revenues and inflows at this budget user.

Next budget user having the highest revenues and inflows is the Ministry of Transport and Communications, the total revenues of which amounted to Denar 1.6 billion, i.e. 2.4% of the revenues and inflows of all budget users, being revenues collected on the basis of loans, i.e. they were generated in the basis of foreign borrowing. Ministry of Education and Science collected revenues in the amount of Denar 1.4 billion, i.e. 2.1% of the revenues and inflows of all budget users, most of which, i.e. 85.5% were non-tax revenues, collected mainly on the basis of fees and charges. The remaining budget users collectively generated revenues, accounting for 4.9% of total revenues and inflows. Detailed data on each budget user are shown in the statistical data attached.

3.4. Core Budget Expenditures according to the Economic Classification

Total Core Budget expenditures in the period January - June 2017 were executed in the amount of Denar 60.1 billion or 47% of the total funds projected under the 2017 Core Budget, amounting to Denar 127.7 billion.

Chart 5. Structure of Executed Expenditures



Source: Ministry of Finance

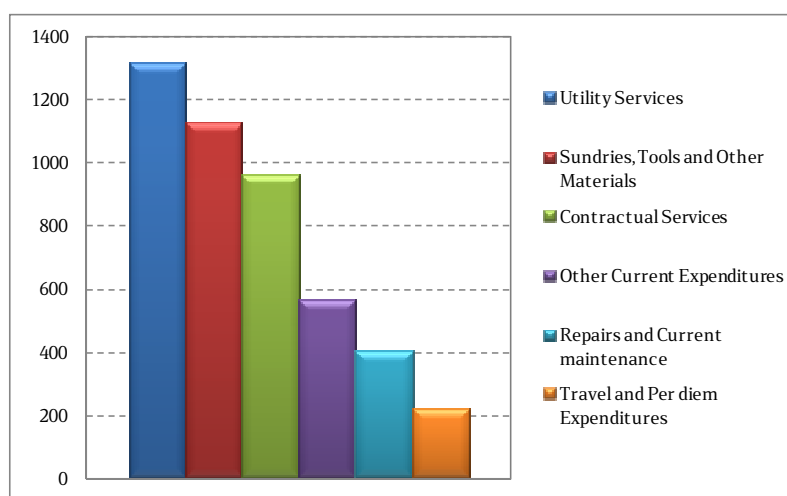
Expenditures on the basis of current transfers to extra-budgetary funds accounted for the most in the structure of executed expenditures in this period (Chart 5), accounting for 28% or Denar 16.8 billion, followed by the expenditures executed on the basis of wages, salaries and allowances, accounting for 20.4% or Denar 12.3 billion, expenditures executed on the basis of current transfers to LGUs, accounting for 14.4% or Denar 8.6 billion, expenditures related to subsidies and transfers, accounting for 12% or Denar 7.2 billion, expenditures related to goods and services, accounting for 8% or Denar 4.6 billion, capital expenditures accounting for 7.2% or Denar 4.3 billion, expenditures

executed on the basis of social benefits, accounting for 6% or Denar 3.8 billion and expenditures related to interest payments, accounting for 4% or Denar 2.3 billion.

During the analyzed period, total of Denar 12.3 billion was paid out of Denar 25.0 billion projected for wages, salaries and allowances for the 2017 Core Budget, accounting for 49.3% of the annual projections.

Under the 2017 Core Budget, Denar 11.2 billion was envisaged for the goods and services category. During the analyzed period, total of Denar 4.6 billion was spent out of these funds, accounting for 41.2% (Chart 6).

Chart 6. Expenditures for Materials, Goods and Services (million Denars)



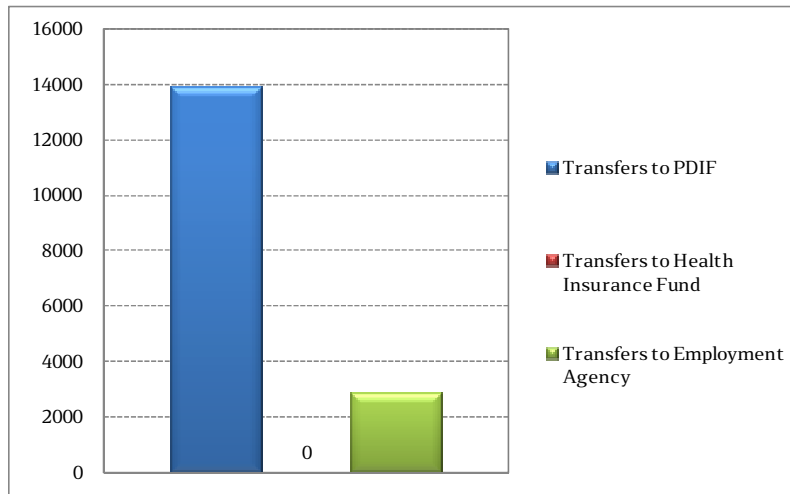
Source: Ministry of Finance

As for the category current transfers to extra-budgetary funds, Denar 16.8 billion was spent in the first half of the year, accounting for 50.7% compared to the annual budget for this category, amounting to Denar 32.7 billion. Out of the total executed expenditures on this basis, Denar 13.9 billion was transferred to the Pension and Disability Insurance Fund, while Denar 2.9 billion was transferred to the Health Insurance Fund (Chart 7).

As regards the category current transfers to the local government units, Denar 8.6 billion was spent, out of which Denar 7.6 billion on the basis of block and earmarked grants and Denar 1.1 billion on the basis of VAT grants, accounting for 50.4% of the funds projected for 2017, amounting to Denar 17.1 billion.

Regarding the subsidies and transfers category, Denar 7.2 billion was spent during the analyzed period, accounting for 55.5% in relation to the budget for this purpose, amounting to Denar 13.1 billion. Most of these expenditures or Denar 4.0 billion was paid on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development.

Chart 7. Current Transfers to Budgetary Funds (million Denars)

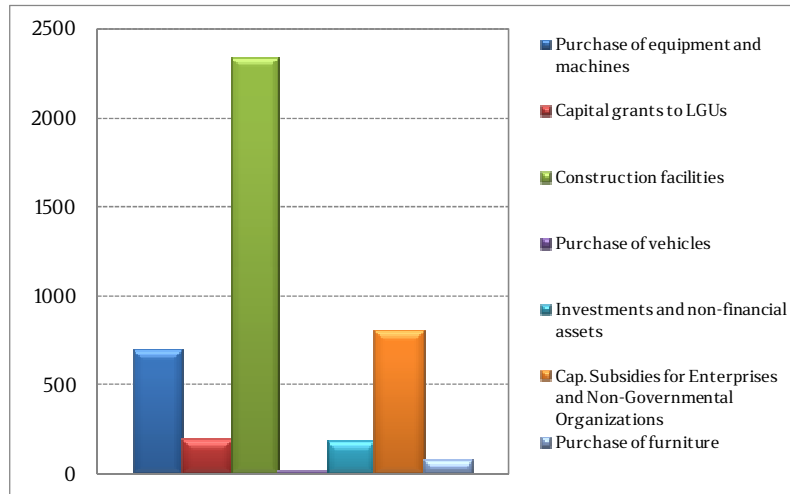


Source: Ministry of Finance

Under the 2017 Core Budget, social benefits are projected in the amount of Denar 7.8 billion and, as of June 2017 inclusive, they accounted for 48.5%, i.e. Denar 3.8 billion in absolute terms.

As for capital expenditures, total of Denar 4.3 billion was paid in the analyzed period, accounting for 34.7% of the funds projected for this purpose under the 2017 Core Budget, amounting to Denar 12.5 billion (Chart 8).

Chart 8. Capital Expenditures (million Denars)



Source: Ministry of Finance

During the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 4.8 billion, while interest-related payments amounted to Denar 2.3 billion. As for interest-related costs towards domestic creditors, Denar 1.3 billion was paid, while Denar 1 billion was paid to foreign creditors. Out of the total

outflows on the basis of loan repayments, outflows for repayment of principal to domestic creditors amounted to Denar 3.0 billion, while outflows for repayment of principal to non-resident creditors amounted to Denar 1.8 billion.

Execution of expenditures for repayment of principle and interest-related payments is carried out according to the planned dynamics in the first half of 2017.

As regards social benefits, funds in the amount of Denar 3.8 billion were spent in this period. In the first half of 2017, parenting payment accounted for the most of the social benefits - 33.4%, Denar 1.3 billion being spent therefore. Financial benefits for aid and care participated with 23.5% in the total social benefits and Denar 888 million was spent for this purpose, while financial social assistance participated with 13.1%, Denar 496 million being spent therefore.

3.5. Expenditures by Budget Users⁴

Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 91.7% of the total budget of all budget users.

In the period January - June 2017, Ministry of Labour and Social Policy executed funds in the amount of Denar 20.7 billion or 50.0% of the total 2017 budget. Thereby, most of the expenditures (73.9%) in this period were allocated for current transfers to extra-budgetary funds, Denar 15.3 billion being spent therefore or 50.7% of the funds allocated for 2017. The second highest expenditure category was social benefits, participating with 18.4% in the total expenditures. As for this purpose, 48.4% (Denar 3.8 billion) of the expenditures projected for 2017 were executed.

In the period January - June 2017, Ministry of Education and Science executed budget funds in the amount of Denar 11.2 billion, i.e. 44.6% of the total 2017 budget. Current transfers to LGUs accounted for the most of the expenditures (58.9%), Denar 6.6 billion being spent therefore or 50.6% of total projected funds. Wages and allowances are the second highest expenditure category, Denar 1.64 billion being spent therefore, i.e. 47.8% of the total projected funds. As for goods and services (accounting for 14.2% of the total expenditures), Denar 1.6 billion was spent, accounting for 36.9% of the total funds projected for the current year.

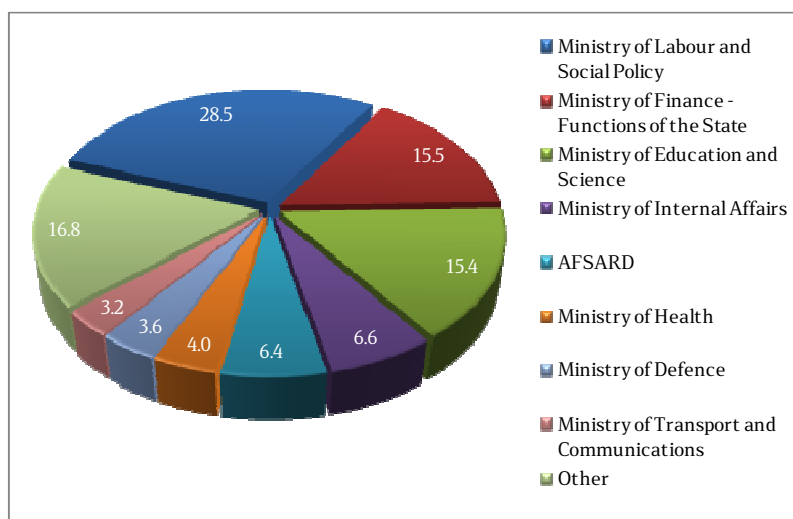
In the period January - June 2017, Denar 11.3 billion was spent through the organizational code Ministry of Finance – Functions of the State⁵, accounting for 28.8%

⁴ Data are preliminary and not consolidated, and they also include the outflows of funds..

⁵ As regards the organizational code "*Functions of the State*", following activities are included: timely servicing of liabilities (interest and principal repayment) of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds financing unforeseen costs in the course of the fiscal year.

of its annual budget. Repayment of principal or 41.7% accounted for most of the expenditures, Denar 4.7 billion being spent therefore in the period January - June 2017, i.e. 25.8% of the funds projected for this purpose in 2017. As regards interest payments, they accounted for 20.7% of total expenditures, Denar 2.3 billion being spent therefore or 28.5% of the projected interest payments. The third highest expenditure category with a share of 19.4% was the capital expenditures, Denar 2.2 billion being spent therefore or 28.2% of the annual projections.

Chart 9. Structure of Expenditures by Budget Users



Source: Ministry of Finance

In the period January - June 2017, Ministry of Internal Affairs executed expenditures in the amount of Denar 4.8 billion, accounting for 45.9% of its 2017 budget. Wages and allowances were the highest expenditure category, accounting for 74.9%, Denar 3.6 billion being spent therefore, or 50.0% of the projected ones. The second highest expenditure category was goods and services, accounting for 13.9%, funds in the amount of Denar 671 million being executed therefore or 31.6% of the annual projections.

In the first six months of 2017, Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 4.7 billion, accounting for 54.1% of the funds projected for the current year. During the analyzed period, subsidies and transfers were the highest expenditure category (accounting for 84.2%), funds in the amount of Denar 4.0 billion being executed therefore or 59.8% of the projected ones. Capital expenditures accounted for 14.8% of the total expenditures, funds in the amount of Denar 696 million being executed therefore in the period January - June 2017 or 35.5% of the annual projections.

In the period January - June 2017, Ministry of Defense executed budget funds in the amount of Denar 2.6 billion, i.e. 41.7% of the total 2017 budget. Expenditures related to wages and allowances accounted for the most with 67.5%, Denar 1.8 billion being spent therefore in the first six months, accounting for 51.3% of the total funds projected for

the current year. Expenditures related to goods and services accounted for 25.4% of total expenditures, Denar 663 million being spent therefore during the analyzed period, i.e. 47.6% execution of the total projected funds.

In the first six months of the year, Ministry of Health executed budget funds in the amount of Denar 2.9 billion, accounting for 51.7% of total 2017 budget. Expenditures related to current transfers to extra-budgetary funds accounted for the most of the expenditures - 48.1%, funds in the amount of Denar 1.4 billion being executed therefore in the period January – June 2017 or 59.4% of the funds allocated for 2017. Expenditures related to goods and services were the second highest expenditure category, accounting for 30.5% of the total expenditures, funds in the amount of Denar 885 million being executed therefore in the analyzed period, i.e. 46.5% of total projected ones. Capital expenditures (participating with 19.7% in the total expenditures) were executed in the amount of Denar 571 million or 47.0%.

Ministry of Transport and Communications executed funds in the amount of Denar 2.3 billion in the first half of 2017, accounting for 49.9% of the total 2017 budget. Capital expenditures accounted for the most in the total expenditures – 83.6%, being executed in the amount of Denar 1.9 billion or 50.8%.

As regards financing the activities in the field of culture⁶, funds in the amount of Denar 2.2 billion were spent, accounting for 54.7% of the total 2017 budget. Capital expenditures accounted for the most in the total expenditures – 35.7%, being executed in the amount of Denar 799 million or 63.7% in the first six months. Subsidies and transfers accounted for 31.3%, Denar 701 million was spent therefore or 53.9% of the projected annual funds. As regards wages and allowances, Denar 521 million was spend, accounting for 49.1% of the total projected funds for the current year, while this category accounted for 23.3% of the total expenditures.

In the first six month in 2017, Ministry of Finance spent budget funds Denar 546 million, accounting for 28.6% of its 2017 budget. Capital expenditures accounted for the most in the expenditures of this budget user, amounting to Denar 171 million, being 31.3% of the total expenditures of the Ministry of Finance and 24.5% of the total projected capital expenditures in 2017. Funds in the amount of Denar 166 million (30.3% of the total expenditures), accounting for 26.1% of the annual budget for this purpose. Denar 141 million was allocated for wages and allowances, accounting for 25.7% of the total expenditures and 46.0% of the total projected funds for this purpose in 2017.

Judicial branch spent Denar 869 million in the period January – June 2017, accounting for 45.8% of the total 2017 budget. Funds for wages and allowances, the execution of

⁶ Financing activities in the area of culture support the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of culture, decentralization and more intensive realization of capital projects.

which amounted to Denar 755 million, accounted for the most in the total expenditures – 86.8%. During this period, 48.6% of the total projected amount allocated for wages and allowances was spent.

Government of the Republic of Macedonia spent Denar 585 million in the first half of 2017, accounting for 32.8% of this year's budget. The highest expenditure category of the Macedonian Government included subsidies and transfers, expenditures the execution of which amounted to Denar 383 million or 54.5% of the total amount projected for this purpose. Subsidies and transfers accounted for 65.5% in its total expenditures executed. Share of wages and allowances in the total expenditures accounted for 18.8%, i.e. Denar 110 million, accounting for 42.3% of the amount projected for the whole year. As regards goods and services, Denar 86 million, i.e. 10.6% of the total budget, was spent for this category, or 14.7% of the total expenditures executed by this budget user.

Funds in the amount of Denar 716 million were executed by the Common Service Agency within the Government of the Republic of Macedonia in the first half of 2017, accounting for 41.0% of its 2017 budget. Capital expenditures in the analyzed period amounted to Denar 363 million, accounting for 50.7% in the total budget. Ratio of execution of capital expenditures was 44.2%. As regards goods and services, funds in the amount of Denar 260 million was spent, accounting for 36.2% of the total expenditures execution at this budget user and 36.3% of the total projected funds for goods and services in 2017.

Public Revenue Office spent Denar 587 million in the first half of 2017, accounting for 51.0% of 2017 budget. The highest expenditure category at this budget user included wages and allowances, expenditures the execution of which amounted to Denar 349 million, accounting for 50.1% of the budget projected for wages and allowances for the current year and 59.4% of total expenditures executed at PRO. In the period January – June 2017, Denar 218 million was spent, accounting for 63.6% of the total amount projected for this purpose and 37.1% of the total 2017 budget.

Ministry of Internal Affairs spent Denar 550 million in the period January - June 2017, accounting for 50.2% of the 2017 budget. Goods and services category accounted for the most in the expenditures – 55.9%, having Denar 307 million spent therefore or 53.0% of the funds allocated in 2017. As regards wages and allowances, Denar 241 million was spent, accounting for 43.8% in the total expenditures executed. Ratio of execution of funds allocated for wages and allowances in the analyzed period was 47.7%.

Customs Administration of the Republic of Macedonia spent Denar 440 million in the first half of 2017, accounting for 41.3% of its 2017 budget. Funds for wages and allowances, expenditures the execution of which amounted to Denar 328 million, which accounted for 74.5% in the total expenditures executed, were the highest expenditure category. During analyzed period, execution of expenditures projected for wages and

allowanced for the current year accounted for 50.2%. As regards goods and services, Denar 88 million was spent, accounting for 20.0% of the total expenditures executed and 34.8% of the total projected goods and services.

In the period January – June 2017, Directorate for Execution of Sanctions spent Denar 622 million, accounting for 59.7% of its budget. The highest expenditure category at this budget user included capital expenditures, expenditures the execution of which amounted to Denar 302 million, accounting for 48.6% of the total expenditures. Funds accounting for 70.9% of the total projected capital expenditures were executed in the first half of the current year. Execution of funds allocated for wages and allowances participated with 30.5% in the total expenditures executed, having Denar 190 million spent, accounting for 49.9% of the total funds projected for 2017. Funds allocated for goods and services were executed in the amount of Denar 120 million, i.e. 53.8%, in the analyzed period, accounting for 19.3% in the total expenditures executed.

Detailed data on each budget user are presented in the statistical data attached.

3.6. Funds' Budget Execution

Deficit of the Pension and Disability Insurance Fund amounted to Denar 621 million in the first half of 2017. In the first half of 2017, PDIF revenues were collected in the amount of Denar 31.7 billion (49.6% compared to the revenues projected in the amount of Denar 63.9 billion), while expenditures amounted to Denar 32.3 billion (50.5% compared to the projected PDIF budget in the amount of Denar 63.9 billion). Out of the total revenues, Denar 17.1 billion was revenues collected on the basis of pension and disability insurance contribution, Denar 13.9 billion was revenues collected on the basis of transfers from the Core Budget of the Republic of Macedonia, Denar 526 million was revenues collected on the basis of excises and the remaining Denar 117 million was other revenues of the Fund. Collection of PDIF contribution in the first half of the year accounted for 49% compared to the 2017 annual projections in the amount of Denar 35.0 billion.

As regards PDIF expenditures, pension-related expenditures were executed in the amount of Denar 25.7 billion, accounting for 50.1% of the funds allocated for this purpose in 2017, amounting to Denar 51.2 billion. Payment of pensions was made in accordance with the dynamics envisaged for 2017. Funds paid for transfers from PDIF to the private pension funds, as well as health insurance contribution for the pensioners to the Health Insurance Fund, amounted to Denar 6.4 billion. Expenditures related to wages, goods and services and other costs amounted to Denar 191 million.

As of June 2017 inclusive, deficit of the Health Insurance Fund of the Republic of Macedonia amounted to Denar 34 million. This was result of the revenue performance in the amount of Denar 13.8 billion and expenditure execution in the amount of Denar 13.8 billion.

During the analyzed period, revenues generated on the basis of collection of contributions amounted to Denar 7.3 billion (the performance of which accounted for 49.1% of the annual projections), PDIF contribution was collected in the amount of Denar 3.3 billion, EARM contribution was collected in the amount of Denar 35 million, transfers from the Core Budget amounted to Denar 2.9 billion, revenues generated on the basis of co-payment amounted to Denar 218 million, as well as other revenues generated in the amount of Denar 58 million. HIF revenue performance accounted for 51.1% in the first half of the year compared to the revenues projected in the amount of Denar 26.9 billion.

As regards expenditures, funds were spent for primary health care in the amount of Denar 11.6 billion, sick leave-related costs in the amount of Denar 1.5 billion, orthopedic aids in the amount of Denar 303 million, as well as medical treatment abroad in the amount of Denar 185 million. Expenditures related to wages, goods and services and other costs amounted to Denar 246 million. As of June 2017 inclusive, execution of expenditures accounted for 51.2% compared to the budget funds for 2017 projected in the amount of Denar 26.9 billion.

As of June 2017 inclusive, surplus of the Employment Agency of the Republic of Macedonia amounted to Denar 296 million. This was result of the revenue performance in the amount of Denar 1.1 billion (53.4% of the amount projected for 2017) and expenditure execution in the amount of Denar 800 million (38.9% compared to the annual budget).

EARM contributions were collected in the amount of Denar 1.1 billion, accounting for 50.4% of 2017 projections of Denar 2.2 billion. At the same time, other revenues were collected in the amount of Denar 7 million.

In the first half of 2017, EARM expenditures related to unemployment benefits amounted to Denar 358 million, expenditures related to employment of disabled persons amounted to Denar 85 million, expenditures related to active employment measures amounted to Denar 186 million, expenditures related to paid pension and health unemployment insurance amounted to Denar 38 million and other costs of the Agency amounted to Denar 133 million.

3.7. Budget Execution regarding Self-Revenue Accounts of Budget Users

Pursuant to 2017 Budget of the Republic of Macedonia, budget deficit regarding the self-revenue accounts of the budget users (intended for self-financing activities, loans and donations) is projected to amount to Denar 5.3 billion. As of June 2017 inclusive, total revenues generated on these accounts amounted to Denar 7.4 billion (37.4% of 2017 projections) and expenditures amounted to Denar 7.9 billion (31.2% of the annual budget), i.e. deficit amounted to Denar 544 million.

3.8. Stock of General Government Debt and Public Debt

General government debt of the Republic of Macedonia amounted to EUR 3,888.7 million on 31st March 2017, i.e. 37.8% of GDP. External general government debt amounted to EUR 2,446.9 million, i.e. 23.8% of GDP, while domestic general government debt amounted to EUR 1,441.8 million, accounting for 14.0% of GDP.

At the end of Q1 in 2017, public debt, which includes the general government debt and the guaranteed debt, amounted to EUR 4,739.7 million, i.e. 46.0% of GDP. External public debt amounted to EUR 3,278.1 million (31.8% of GDP), while domestic public debt amounted to EUR 1,461.6 million (14.2% of GDP).

From interest structure point of view, ratio between fixed and variable interest rate was 74:26 respectively at the end of Q1 2017. As regards the currency, Denar-denominated debt accounted for 20.9% in the total general government debt portfolio. Hence, foreign currency-denominated debt accounted for 79.1%, whereby euro-denominated debt accounted for the most in the total general government debt – 70.9%, special drawing rights accounted for 6.3%, US dollar-denominated accounted for 0.5%, while Japanese Yen-denominated debt participated with 1.4%.

Attachment - Detailed data on each budget user are presented in the statistical data attached. <http://www.finance.gov.mk/en/node/699>.