



**REPUBLIC OF NORTH MACEDONIA  
MINISTRY OF FINANCE**

**SEMI-ANNUAL REPORT ON EXECUTION  
OF THE BUDGET OF THE REPUBLIC OF  
NORTH MACEDONIA  
JANUARY – JUNE 2021**

**Skopje, July 2021**

## Summary

- Gross domestic product experienced decline of 1.9% in real terms in Q1 2021 on annual basis, as a result of the adverse effects of the pandemic on the domestic economy;
- Unemployment rate, according to the Labour Force Survey, dropped to 16% in the first quarter in 2021, declining by 0.2 p.p. compared to the same quarter in 2020;
- Headline inflation rate accounted for 2.4% in the first half of 2021, driven by the increase in food, fuel and tobacco prices;
- Total budget revenues were collected in the amount of Denar 101.1 billion in the period January – June, accounting for 47.5% of the amount projected for 2021, increasing by 15.6% compared to the first half of 2020;
- Total budget expenditures were realized in the amount of Denar 116.8 billion in the period January – June 2021, accounting for 47.2% of the annual projections, increasing by 3.0% compared to the first half of 2020;
- In the period January – June 2021, budget deficit amounted to Denar 15.7 billion, accounting for 44.9% of the projected deficit, i.e. 2.2% of the GDP projected for 2021;
- At the end of the first quarter of 2021, government debt accounted for 54.1% of GDP, while public debt accounted for 62.5% of GDP.

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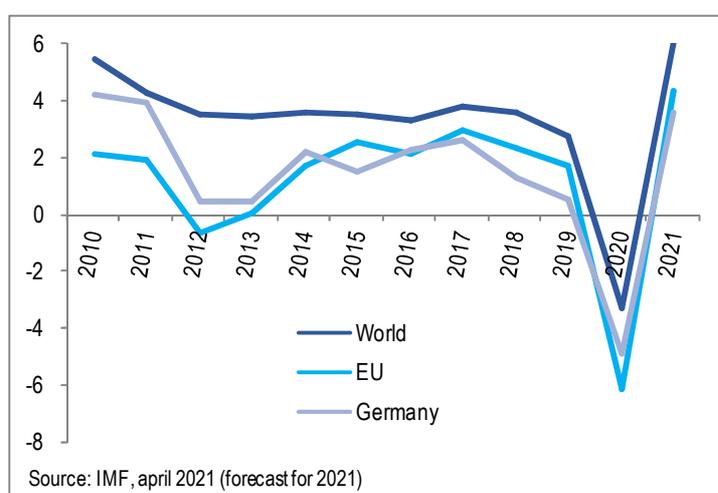
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## 1. International Economic Trends<sup>1</sup>

The global economy in 2021 is expected to continue to be affected by the coronavirus pandemic. However, after the economic contraction in 2020, which was unprecedented in living memory in its speed and synchronized nature, the global economy is expected to recover in 2021, which will largely depend on additional fiscal support in major economies, as well as the vaccination throughout the year. Thanks to the timely policy response to cope with the pandemic impact, the resulting economic effects therefrom are expected to leave smaller scars than the 2008 global financial crisis.

Global economic activity is expected to grow by 6% in 2021, according to the latest International Monetary Fund forecast, while the EU economic growth is projected at 4.4%, after the 6.1% decrease last year. In Germany, as the largest economy within the EU and our major trading partner, the economic activity growth is projected at 3.6% (Chart 1).

Chart 1. Global Economic Growth (in %)



A high degree of uncertainty surrounds these projections, with many possible downside and upside risks. Much still depends on the race between the virus and vaccines. Greater progress with vaccinations can uplift the forecast, while new virus variants that evade vaccines can lead to a sharp downgrade. Moreover, health crisis may additionally exacerbate the potential of aggregate supply, which may result from the reduced labour force activity rate, the numerous bankruptcies, as well as the disruptions in production networks.

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

### 2.1. Economic Activity

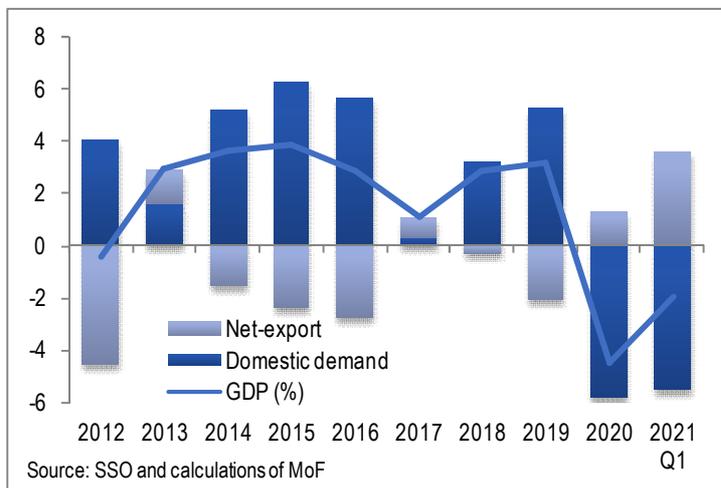
Gross domestic product experienced a decline of 1.9% in real terms in Q1 in 2021 on annual basis, as a result of the adverse effects of the pandemic on the domestic economy. Analyzed according to the expenditure side, contracted economic activity mostly arises from the drop of gross investments by 16.6% in real terms, in particular, drop of inventories, mitigated by the growth of investments in fixed assets, corresponding to the scaled-up investments in construction works and strong import of investments goods. Public consumption also declined by 2.2% in real terms, partly as a result of the high comparative basis, as well as the real reduction of

<sup>1</sup> Analysis in this section is based on IMF's World Economic Outlook, published in April 2021.

<sup>2</sup> Recently available data are used in the Report. As regards GDP, unemployment and BOP, data as of Q1 2021 inclusive are available.

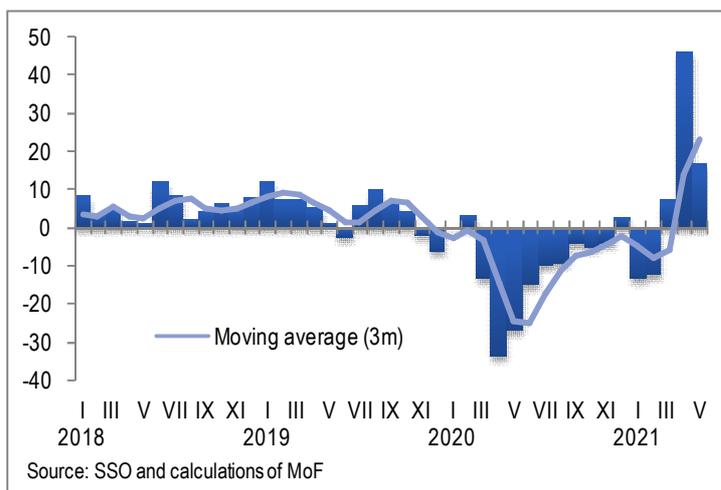
public expenditures related to wages and allowances. Private consumption had a positive contribution to the economic activity, growing by 0.4%, as a result of the increase of foreign remittances, as well as the state aid for supporting the employees in the most severely affected sectors and the vulnerable categories, reflecting on increased sales of non-food products.

Chart 2. Economic Growth Expenditure Structure (contribution to growth, percentage points)



Export of goods and services surged by 8.6% in real terms in Q1, being mostly a result of the improved international economic environment, resulting primarily in growth of the export of machinery, transport equipment and chemical products. Import of goods and services grew by 2% in real terms, boosted by the import of intermediary and capital goods, with a positive contribution of the net export to the economic activity (Chart 2). In fact, even during the last several months in 2020, foreign trade showed signs of recovery, intensifying significantly in the first five months in 2021, i.e. export of goods experienced nominal growth of 44.3% and import of goods picked up by 39.5%.

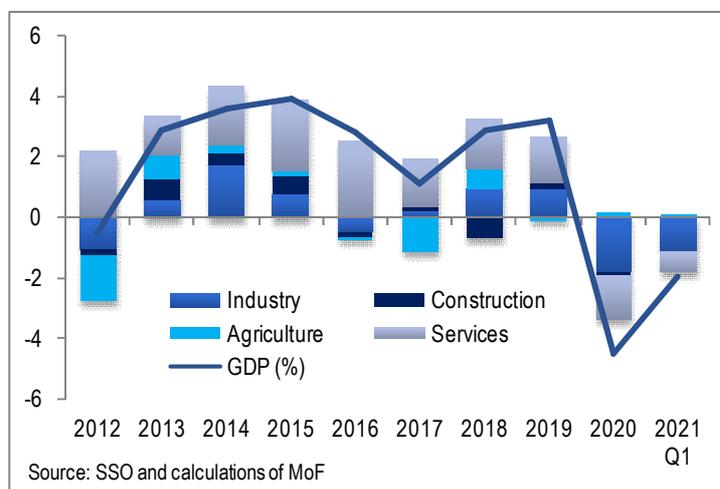
Chart 3. Annual Growth of Industrial Production (in %)



Analyzed by sectors, Industry declined by 6.7% in Q1 2021, amid reduced activity in Manufacturing. High-frequency data on Industry show that drop of production recorded in the previous two months was interrupted in March, reaching 46.1% growth in April and 16.5% in May on annual basis (Chart 3), whereby, in

addition to shifting of manufacture of motor vehicles, textile, clothing, furnishings and food products to the positive zone, growth of manufacture of machinery, equipment and electrical equipment also accelerated. Utilization of the capacities in Manufacturing continued to grow in the course of 2021, thus reaching the pre-crisis level in April (71.4%).

Chart 4. Economic Growth Structure According to Production Method (contribution to growth, percentage points)



Activity in the services sector dropped by 1% in the first quarter, mostly as a result of the unfavourable trends in the following activities: public administration, arts and recreation. As for Trade, transport and food and accommodation, slight decline was registered, whereby high-frequency data on domestic trade showed nominal growth of sales of 12.4% in the period January - May 2021, stemming from the favourable trends in all segments of trading. Construction sector experienced 1.7% growth in real terms in the first quarter which, according to monthly data, was a result of the favourable trends as regards buildings. Agriculture sector registered 0.3% growth in real terms.

Favourable international environment and the process of mass immunization in the country are expected to have a positive impact on the expectations and the confidence of domestic economic entities and the propensity to invest and consume. Fiscal policy and redesigning of the public expenditures, focusing on strengthening the public investment cycle and the measures geared towards accelerated, inclusive and sustainable economic growth, will have a significant impact on both the investment demand and the growth potential.

Following the decline in 2020, the economy is expected to recover in 2021, with growth projected at 4.1%, as per the initial Budget projections, however with certain adjustment as regards the growth structure, i.e. higher positive contribution of domestic demand, amid upward revision of projections on consumption and investment growth, as well as higher negative contribution of net export to the economic growth.

Decomposition of economic growth shows that investments will play a significant role in the recovery of the economy and its gradual intensification. Gross investments are projected to experience real growth of 8% in 2021, with both private and public investments expected to contribute positively. Consumption is also envisaged to support domestic demand growth. Private consumption is projected to pick up by 4% real terms, with growth of public consumption projected at 4.3%. Export is projected to surge by 10.6% and import to increase by 11% in real terms.

Table 1. Comparison of Economic Growth and Inflation Forecasts for 2021 (in %)

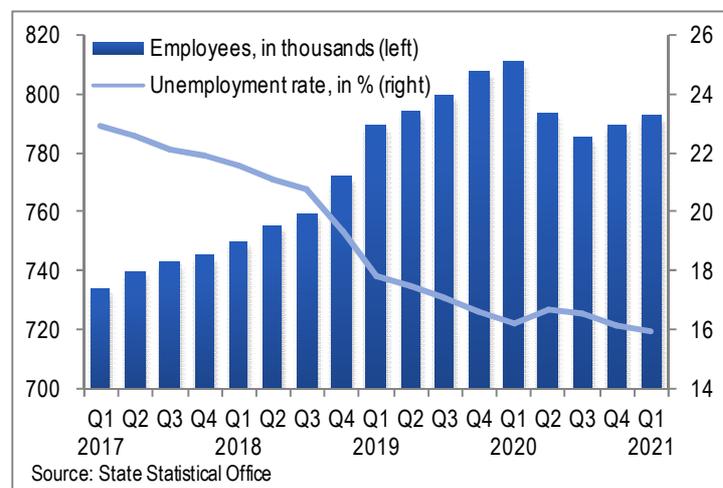
	Economic Growth	Inflation
<b>Ministry of Finance</b>	4.1	2.1
<b>IMF</b>	3.8	2.0
<b>World Bank</b>	3.6	1.6
<b>European Commission</b>	3.7	1.7
<b>EBRD</b>	4.0	/
<b>Vienna Institute</b>	4.1	2.5
<b>S&amp;P Ratings</b>	3.6	1.5
<b>Fitch Ratings</b>	3.9	1.9
<b>National Bank of RNM</b>	3.9	2.2

Source: IMF (World Economic Outlook, April 2021), World Bank (Western Balkans Regular Economic Report, April 2021), European Commission (European Economic Forecast, May 2021), EBRD (Regional Economic Prospects, June 2021), Vienna Institute for International Economic Studies (June 2021), S&P Ratings (February 2021), Fitch Ratings (May 2021), National Bank of RNM (Quarterly Report, May 2021).

## 2.2. Labour Market

Unemployment decline continued in the first quarter of 2021 according to the Labour Force Survey, i.e. unemployment rate dropped to 16%, decreasing by 0.2 p.p. compared to the same quarter in 2020.

Chart 5. Number of Employed and Unemployment Rate

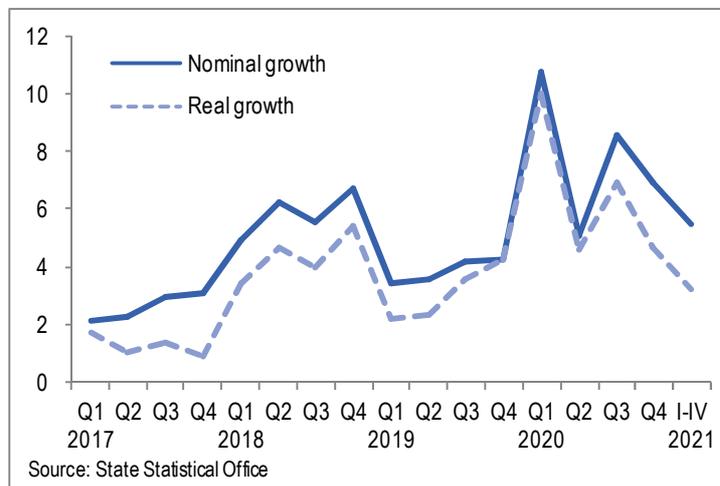


Number of employed in Q1 2021 dropped by 2.2% on annual basis, mainly as a result of the high comparative basis<sup>3</sup> (Chart 5). Employment declined, above all, in sectors that were most severely hit by the pandemic, such as transport and food and accommodation services, with agriculture, industry sector and financial activities experiencing slighter decline. On the other hand, employment mostly increased in the health sector, the public administration and the information and communication activity.

<sup>3</sup> Compared to the Q4 2020, employment picked up by 0.5%, while seasonally adjusted trend shows that employment is kept at the level as in Q4 2020, amid unfavourable effects of the pandemic on the domestic economy.

In the course of the first four months in 2021, wages grew on average by 5.5% in nominal terms, mostly as a result of the increased wages in information and communication activity, health sector, arts and some of the activities in the industrial sector. In real terms, wages in this period registered an average growth of 3.3% (Chart 6).

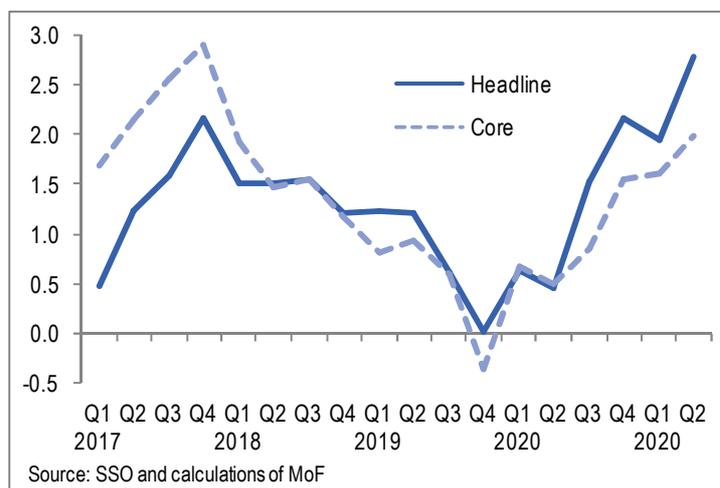
Chart 6. Increase of Average Net Wage (in %)



### 2.3. Inflation and Monetary Trends

Headline inflation rate accounted for 2.4% in the first half of 2021, driven up by the increase in food, tobacco, electricity and oil derivatives prices, in line with the upward trend of crude oil price on the global market. Core inflation accounted for 1.8% in this period.

Chart 7. Headline and Core Inflation (in %)

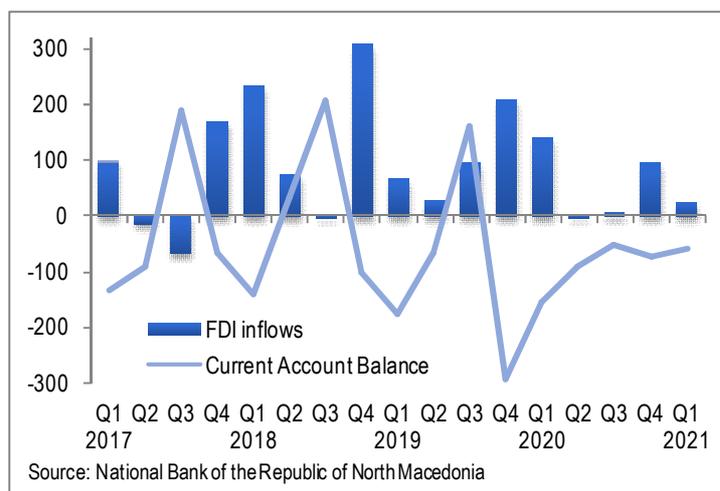


The National Bank continued the accommodative monetary policy in the first half of 2021, by additionally reducing the policy rate by 0.25 p.p. in March, thus, it accounted for 1.25%, being at the lowest level so far. On annual basis, total credits grew by 5.6% in May 2021, amid growth of both credits to households of 8.8% and credits to enterprises of 2.1%. Total deposit potential in May 2021 grew by 7.1% on annual basis, amid increased Denar deposits and foreign currency deposits.

## 2.4. Balance of Payments

BOP current account registered deficit in the amount of EUR 61 million in the first quarter of 2021 which, compared to the same period in 2020, significantly narrowed, in particular it amounted to EUR 156 million, due to the increased transfer from abroad and the narrowed deficit at the trade of goods and services. Inflow of foreign direct investments (FDIs) amounted to EUR 26 million, which was mostly on the basis of reinvested earnings, and to a lesser extent on the basis of equity, while debt instruments had a negative contribution to FDI flow.

Chart 8. Current Account Balance and Inflow of FDIs (in EUR million)



Reserve assets amounted to EUR 4 billion in June 2021, providing for 5.3-month coverage of import of goods and services in the coming 12-month period, being at an adequate level to conduct the monetary policy.

## 3. Fiscal Sector

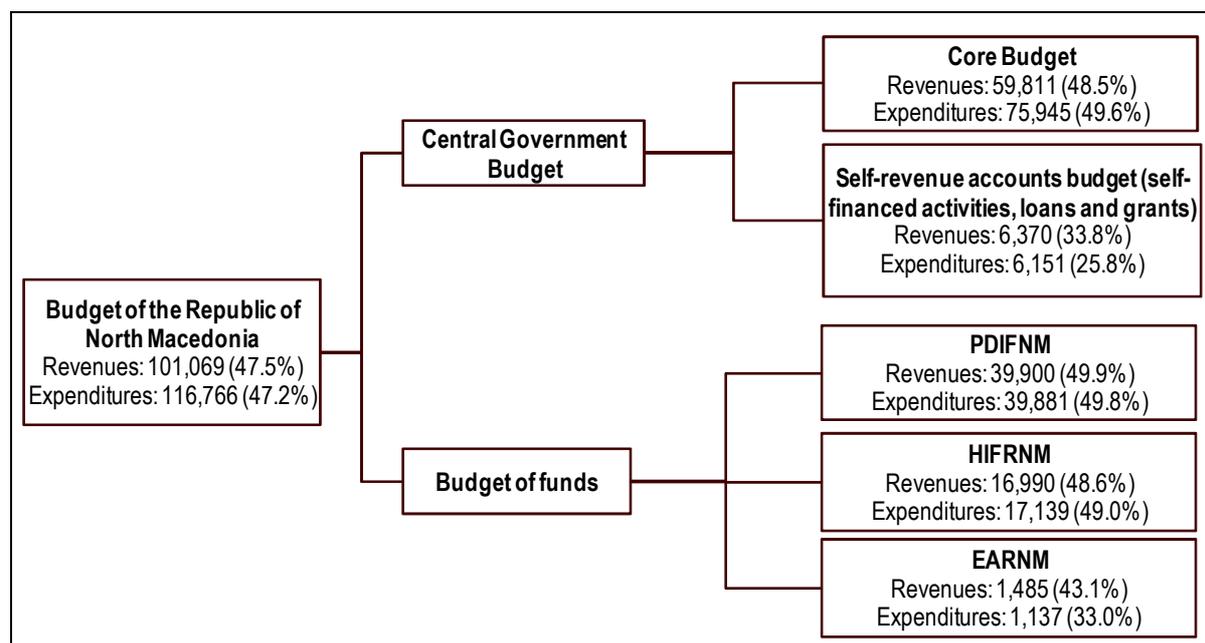
### 3.1 Budget of the Republic of North Macedonia

Under 2021 Budget of the Republic of North Macedonia, total revenues and total expenditures are projected in the amount of Denar 212,630 million and Denar 247,568 million respectively, i.e. deficit is projected in the amount of Denar 34,938 million (Core Budget deficit amounting to Denar 29,907 million, Funds' deficit amounting to Denar 8 million and self-revenue accounts deficit amounting to Denar 5,023 million).

Total budget revenues were collected in the amount of Denar 101,069 million, accounting for 47.5% of 2021 projections, being an increase of 15.6% compared to the budget revenue performance in the same period in 2020 (Table 2). Such high increase stemmed from increased import and sales of goods in the country, favourable trends in both the industry and the construction sectors, wage increase, as well as the low comparative basis, especially in Q2 2020, when the pandemic impact on the budget revenues was felt the most. As regards total revenues, Denar 91,548 million was collected on the basis of tax revenues and social contributions, accounting for 49.1% of 2021 projected amount, being 15.1% increase in relation to 2020. Thereby, tax revenues were collected in the total amount of Denar 57,821 million<sup>4</sup> (accounting for 49.0% of 2021 projected amount), while social contributions amounted of Denar 33,727 million (annual increase of 6.2%, accounting for 49.4% of 2021 projected amount). As regards tax revenues, increased collection was recorded at all taxes, with VAT revenues registering the highest increase of 32.3%, followed by higher revenues collected on the basis of import duties - 32.2%, excises - 12.0%, PIT - 9.7% and PT - 5.9%.

<sup>4</sup> Self-revenue accounts in the amount of Denar 649 million are also included.

Chart 9. Scheme of the Budget of RNM - performance (Denar million) and realization rate (%) in the first half of 2021



Total budget expenditures were executed in the amount of Denar 116,766 million in the period January – June 2021, accounting for 47.2% of the annual projections, i.e. increase of 3.0% compared to the first half of 2020. Thereby, current expenditures were executed in the amount of Denar 110,204 million, i.e. 49.3% of the amount projected for the whole year, being an increase of 1.2% compared to the same period in 2020. Increase was registered at interest payments of 55.2%, expenditures related to goods and services of 14.6% and expenditures related to wages and allowances of 2.9%. On the other hand, transfers, as the highest current expenditure category, dropped by 2.1%, driven by the high 27.3% decline at subsidies and transfers, stemming from the high expenditures at this category in the first half of 2020 as a result of the measures undertaken to cope the Coronavirus pandemic. However, as regards transfers, social transfers surged by 4.1%. Capital expenditures were executed in the amount of Denar 6,562 million, being by 48.2% higher compared to the same period in 2020. Execution of capital expenditures in the first half is usually lower, i.e. it accounted for 27.3% in 2021. Intensified execution of these expenditures is expected in the second half of the year, as shown in Table 2.

In the period January - June 2021, budget deficit amounted to Denar 15,697 million, accounting for 2.2% of 2021 projected GDP, i.e. 44.9% of the annual projections (Table 2). Within the Budget of the Republic of North Macedonia, Core Budget deficit amounted to Denar 16,134 million, surplus of the Funds amounted to Denar 218 million, and surplus on the self-revenue accounts in the amount of Denar 219 million.

### 3.1.1 Execution of the Core Budget

Total Core Budget revenues amounted to Denar 59,811 million in the period January – June 2021, accounting for 48.5% of the total revenues projected for 2021 in the amount of Denar 123,318 million.

Tax revenues, being the highest revenue item within the total revenues, were collected in the amount of Denar 56,522 million, i.e. 49.3% of the annual projections, while non-tax and capital revenues were collected in the amount of Denar 3,289 million or 37.5% of the revenues projected for the whole year.

Table 2. Budget Execution for the period January – June 2021

	Budget 2021	January - June 2021			Jan - Jun 2015-2019*	Jan - Dec 2015-2019*
	in denar million	in denar million	yearly growth rate	execution rate	average execution rate (compared to original budget)	
<b>TOTAL REVENUES</b>	<b>212,630</b>	<b>101,069</b>	<b>15.6%</b>	<b>47.5%</b>	<b>46.5%</b>	<b>96.8%</b>
<b>Taxes and Contributions</b>	<b>186,282</b>	<b>91,548</b>	<b>15.1%</b>	<b>49.1%</b>	<b>48.1%</b>	<b>99.5%</b>
Taxes	115,953	57,172	20.8%	49.3%	48.2%	99.1%
Personal Income Tax	20,290	9,273	9.7%	45.7%	47.4%	103.4%
Profit Tax	11,501	6,079	5.9%	52.9%	73.1%	123.3%
VAT	52,280	26,600	32.3%	50.9%	46.2%	95.2%
Excises	25,285	10,965	12.0%	43.4%	47.8%	103.7%
Import Duties	5,968	3,952	32.2%	66.2%	47.5%	98.7%
Other Taxes	629	303	28.9%	48.2%	30.7%	70.0%
Contributions	68,300	33,727	6.2%	49.4%	48.1%	100.9%
<b>Non Tax Revenues</b>	<b>16,954</b>	<b>6,619</b>	<b>15.9%</b>	<b>39.0%</b>	<b>38.3%</b>	<b>78.9%</b>
<b>Capital Revenues</b>	<b>3,187</b>	<b>432</b>	<b>-16.1%</b>	<b>13.6%</b>	<b>30.9%</b>	<b>86.0%</b>
<b>Foreign Donations</b>	<b>6,207</b>	<b>2,470</b>	<b>49.6%</b>	<b>39.8%</b>	<b>37.2%</b>	<b>93.6%</b>
<b>Revenues from repayment of loans</b>	<b>0</b>	<b>0</b>	<b>/</b>	<b>/</b>	<b>17.8%</b>	<b>38.0%</b>
<b>TOTAL EXPENDITURES</b>	<b>247,568</b>	<b>116,766</b>	<b>3.0%</b>	<b>47.2%</b>	<b>45.9%</b>	<b>95.8%</b>
<b>Current Expenditures</b>	<b>223,513</b>	<b>110,204</b>	<b>1.2%</b>	<b>49.3%</b>	<b>48.6%</b>	<b>99.4%</b>
Wages and Allowances	31,394	15,213	2.9%	48.5%	48.9%	98.8%
Goods and Services	21,322	8,380	14.6%	39.3%	39.7%	84.5%
Transfers	161,319	82,410	-2.1%	51.1%	50.8%	101.6%
Social Transfers	120,653	59,420	4.1%	49.2%	50.0%	101.3%
Pensions Fund	71,319	35,643	3.9%	50.0%	50.3%	101.4%
Unemployment Benefits	2,681	861	-18.7%	32.1%	42.6%	96.1%
Social Benefits	12,286	6,026	6.9%	49.0%	48.2%	99.5%
Health Care	34,367	16,890	5.0%	49.1%	50.4%	102.0%
Other Transfers	38,453	21,834	-16.0%	56.8%	54.0%	102.4%
Interest	9,478	4,201	55.2%	44.3%	34.0%	102.9%
<b>Capital Expenditures</b>	<b>24,055</b>	<b>6,562</b>	<b>48.2%</b>	<b>27.3%</b>	<b>25.8%</b>	<b>69.4%</b>
<b>BUDGET BALANCE</b>	<b>-34,938</b>	<b>-15,697</b>	<b>-39.5%</b>	<b>44.9%</b>	<b>39.5%</b>	<b>84.1%</b>

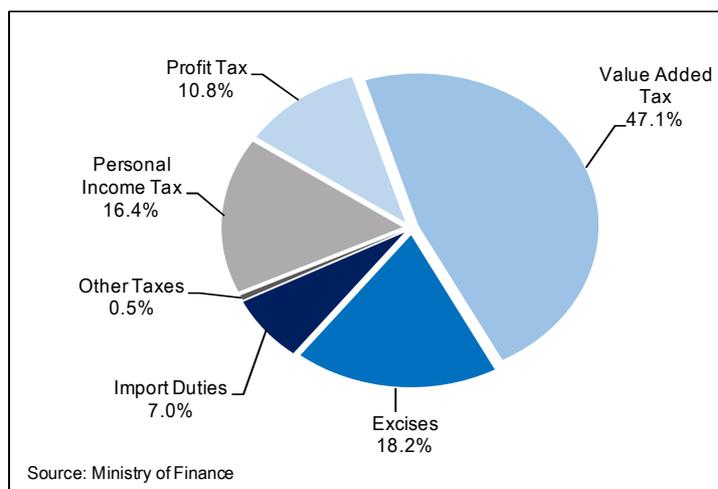
Source: Ministry of Finance

\* 2020 is not included in the calculations of average execution rates due to significant effects of the pandemic on the amounts

Structure of collected tax revenues showed that VAT revenues accounted for the most with Denar 26,600 million or 47.1% of the total tax revenues (Chart 10), followed by revenues on the basis of excise duties collected in the amount of Denar 10,315 million, revenues on the basis of PIT in the amount of Denar 9,273 million, PT revenues collected in the amount of Denar 6,079 million, revenues on the basis of import duties in the amount of Denar 3,952 million and other tax revenues in the amount of Denar 303 million.

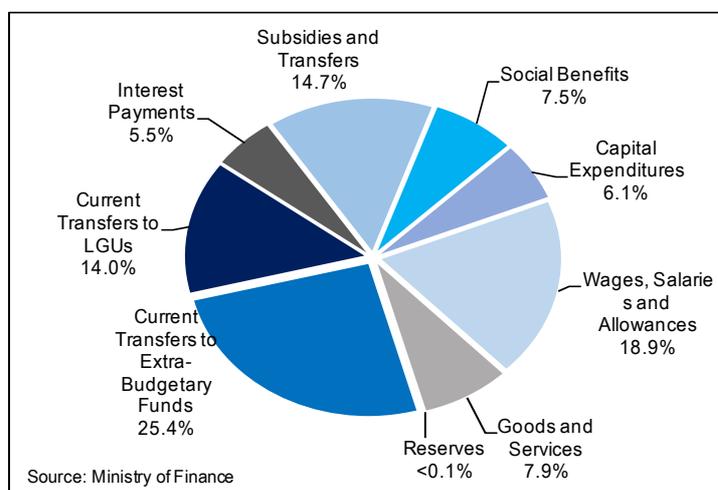
Total Core Budget expenditures were executed in the amount of Denar 75,945 million in the period January – June 2021 or 49.6% of the total funds projected under the 2021 Core Budget.

Chart 10: Structure of Collected Tax Revenues, January – June 2021



Expenditures on the basis of current transfers to extra-budgetary funds, amounting to Denar 19,320 million, accounted for the most in the structure of expenditures executed in this period, followed by expenditures on the basis of wages, salaries and allowances in the amount of Denar 14,344 million, subsidies and transfers in the amount of Denar 11,169 million, expenditures on the basis of current transfers to local government units (LGUs) amounting to Denar 10,665 million, goods and services in the amount of Denar 5,987 million, social benefits amounting to Denar 5,659 million, capital expenditures in the amount of Denar 4,599 million and expenditures related to interest payments in the amount of Denar 4,201 million. Chart 11 shows their percentage share in the total expenditures.

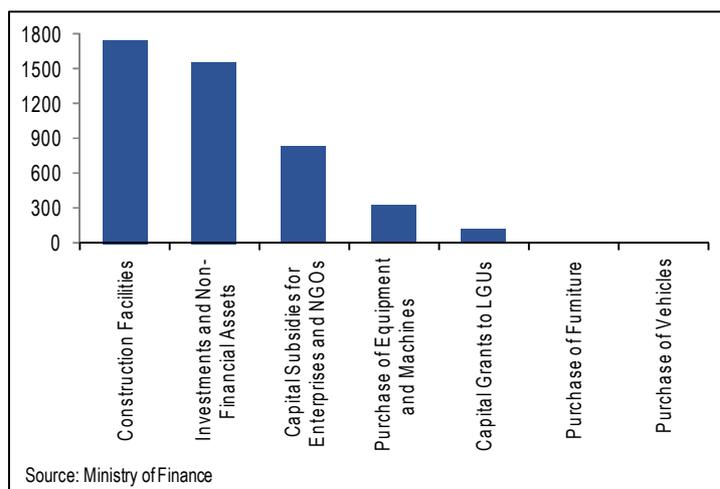
Chart 11: Structure of Executed Expenditures according to Economic Classification, January – June 2021



Out of the total projected funds for wages and allowances in 2021 Core Budget, 48.9% were executed in the analyzed period, while execution of expenditures at the “goods and services” category accounted for 45.4%. Chart 12 shows disaggregated data on executed expenditures on the basis of goods and services.

Current transfers to extra-budgetary funds in the first half of 2021 accounted for 49.1% of the annual projections. Within this category, transfers to Pension and Disability Insurance Fund of North Macedonia accounted for the most - 84.1%, while the remaining funds were transferred to the Health Insurance Fund and the Employment Agency.

Chart 12: Expenditures Related to Goods and Services, January – June 2021 (Denar million)



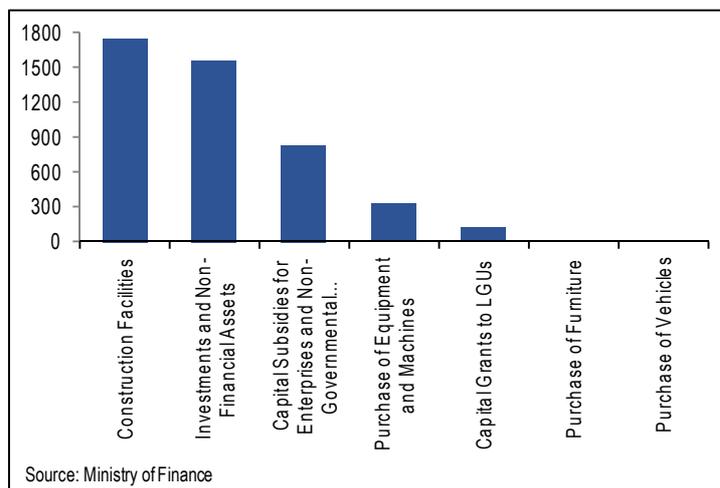
Out of the total funds projected for current transfers to LGUs in 2021, 50.0% were executed in the first half of the year. The highest amount of transfers within this category, i.e. 89.5%, was executed on the basis of earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

Execution rate at the “subsidies and transfers” category accounted for 64.3% in the analyzed period. Most of these expenditures, i.e. 34%, were executed on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development, while 23.4% of the expenditures were executed on the basis of measures aimed at coping with the COVID-19 induced crisis.

In the period January - June, expenditures on the basis of social benefits accounted for 53.9% of annual projections.

During the analyzed period, capital expenditures accounted for 36.2% of the funds projected for this purpose in 2021 Core Budget. Chart 13 shows disaggregated data on executed capital expenditures.

Chart 13: Capital Expenditures, January – June 2021 (Denar million)



In the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 6,605 million, while interest payments amounted to Denar 4,201 million. Out of the total outflows on the basis of loan repayment, outflow for repayment of principal to domestic creditors amounted to Denar 3,791 million, while Denar 2,814 million was outflows for repayment of principal to non-resident creditors.

As for interest payments towards domestic creditors, Denar 1,340 million was paid, while Denar 2,861 million was paid to foreign creditors.

### **3.1.2 Funds' Budget Execution**

Surplus of the Pension and Disability Insurance Fund amounted to Denar 19 million in the first half of 2021. By June inclusive, revenues and inflows were realized in the amount of Denar 39,900 million, accounting for 49.9% in relation to 2021 projections, while expenditures were executed in the amount of Denar 39,881 million, i.e. 49.8% of the annual projections. Out of the total revenues, Denar 22,804 million was revenues collected on the basis of pension and disability insurance contributions (49.3% of annual projections), Denar 16,256 million was transferred from the Core Budget, Denar 650 million was revenues collected on the basis of excise duties and the remaining Denar 190 million was other revenues of the Fund.

As regards PDIF expenditures, pension expenditures were executed in the amount of Denar 30,903 million or 49.6% of 2021 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2021. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 4,740 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 3,983 million. Expenditures related to wages, goods and services and other costs amounted to Denar 255 million.

As of June 2021 inclusive, Health Insurance Fund deficit amounted to Denar 149 million, amid revenues collected in the amount of Denar 16,990 million, accounting for 48.6% of the annual projections, and expenditures executed in the amount of Denar 17,139 million, accounting for 49.0% of 2021 projections.

During the analyzed period, revenues collected on the basis of health insurance contributions amounted to Denar 9,531 million or 49.5% of the annual projections. Health insurance contributions for pensioners paid to the PDI Fund amounted to Denar 3,983 million, while health insurance contributions paid by the Employment Agency of RNM amounted to Denar 71 million. Transfers from the Core Budget amounted to Denar 3,003 million, transfers from MLSP amounted to Denar 113 million, revenues on the basis of co-payments were collected in the amount of Denar 219 million, while other revenues were collected in the amount of Denar 70 million. As regards expenditures, funds were spent for primary health care in the amount of Denar 14,547 million, sick leave-related costs amounted to Denar 1,938 million, expenditures for orthopedic aids were executed in the amount of Denar 241 million, while funds spent for medical treatment abroad amounted to Denar 164 million. HIF's expenditures related to wages, goods and services, as well as capital expenditures, amounted to Denar 249 million.

In the period January – June 2021, surplus of the Employment Agency of RNM amounted to Denar 348 million, amid revenues collected in the amount of Denar 1,485 million (43.1% of 2021 projections) and expenditures executed in the amount of Denar 1,137 million (33.0% in relation to the annual budget). Contributions on the basis of insurance in case of unemployment are the main revenue item, revenues thereof were collected in the amount of Denar 1,392 million, accounting for 49.9% of the annual projections.

In the first half of 2021, EARNM expenditures related to unemployment benefits amounted to Denar 724 million, expenditures related to employment of disabled persons amounted to Denar 64 million, expenditures related to active employment measures amounted to Denar 137 million, while expenditures related to contributions paid for pension and health insurance for unemployed amounted to Denar 71 million. Agency's expenditures related to wages, goods and services amounted to Denar 141 million.

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

Pursuant to 2021 Budget of the Republic of North Macedonia, budget deficit regarding the self-revenue accounts of the budget users (intended for self-financing activities, loans and donations) is projected in the amount of Denar 5,023 million, while the surplus realized in the analyzed period amounted to Denar 219 million.

As of June 2021 inclusive, total revenues generated on these accounts amounted to Denar 6,370 million (33.8% of 2021 projections), while expenditures were executed in the amount of Denar 6,151 million (25.8% of the annual budget). As regards the expenditures, current expenditures were executed in the amount of

Denar 4,203 million or 33.1% of the annual projections, while capital expenditures were executed in the amount of Denar 1,948 million or 17.4% of the annual projections.

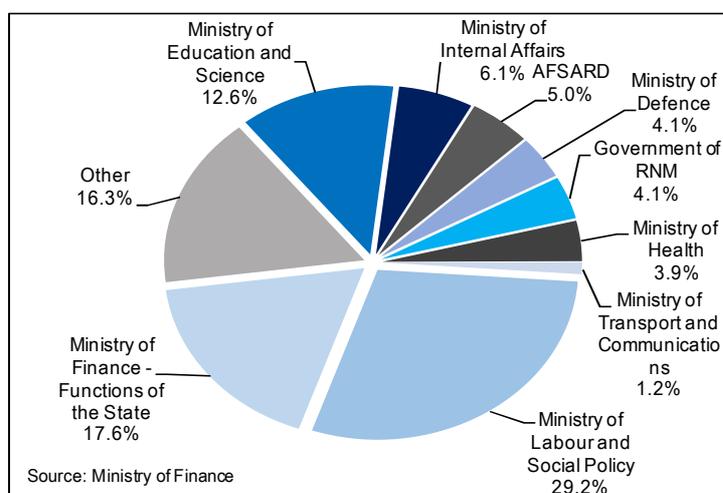
### 3.1.4 Budget Execution by Budget User<sup>5</sup>

Review of budget expenditures and outflows for the largest budget users is shown below, the total annual budget of which accounts for 85.2% of the total budget of all budget users (Chart 14).

Ministry of Labour and Social Policy spent Denar 26,453 million in the first half of 2021, or 7.9% more compared to the previous year. Expenditure execution accounted for 49.5% of its total 2021 budget. Thereby, most of the expenditures (68.2%) in this period were allocated for current transfers to budgetary Funds, Denar 18,044 million being spent therefore or 49.6% of the funds allocated for 2021. The second highest expenditure category were the social benefits, participating with 22.4% in the total expenditures, whereby 49.8% (Denar 5,915 million) of the expenditures projected for 2021 was executed for this purpose.

In the period January – June 2021, Denar 15,950 million, i.e. 25.7%, of the funds projected for 2021 was spent through the organizational code Ministry of Finance – Functions of the State<sup>6</sup>. Lower execution was caused by the main category of this budget user, Principal Repayment, accounting for 15.2% of the amount projected for the whole year, however, it is envisaged to increase in the second half, when repayment of the Eurobond, issued in 2014, falls due, amounting to EUR 500 million. Funds in the amount of Denar 6,543 million were spent under this category, accounting for 41.0% in the total expenditures. As regards expenditures related to interest payments, they accounted for 26.3% of the total expenditures, Denar 4,197 million being spent therefore, accounting for 51.6% of the total budget for this purpose. Third highest expenditure category, participating with 21.2%, was capital expenditures, Denar 3,378 million being spent therefore.

Chart 14: Structure of Executed Expenditures and Outflows by Budget User, January – June 2021



In the period January – June 2021, Ministry of Education and Science executed budget funds in the amount of Denar 11,428 million (42.0% of the projected ones), being by 4.9% less compared to 2020. Current transfers to LGUs accounted for the most of the expenditures (71.1%), Denar 8,125 million being spent therefore

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

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

or 50.0% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 14.5%, Denar 1,653 million being spent therefore, i.e. 38.2% of the total projected funds.

In the first half of 2021, Ministry of Internal Affairs executed expenditures in the total amount of Denar 5,495 million, accounting for 45.9% of its 2021 budget, being by 6.3% higher compared to 2020. Wages and allowances were the highest expenditure category, participating with 72.3%, Denar 3,975 million being spent therefore, accounting for 49.1% of the projected ones. The second highest expenditure category was goods and services, participating with 18.7%, funds in the amount of Denar 1,030 million being spent therefore, accounting for 42.0% of the annual projections.

In the period January – June 2021, Agency for Financial Support in Agriculture and Rural Development executed expenditures in the amount of Denar 4,538 million (85.3% of the total funds projected for 2021). Major expenditure category at this budget user, participating with 83.8% in the total expenditures, is subsidies and transfers, funds in the amount of Denar 3,804 million being spent therefore, accounting for 89.0% of the projected funds.

In the first half of 2021, Ministry of Defense executed budget funds in the amount of Denar 3,708 million, accounting for 33.4% of its total 2021 budget, being by 9.7% compared to 2020. Expenditures related to wages and allowances accounted for the most with 55.9%, Denar 2,072 million being spent therefore in the period January – July 2021 (accounting for 48.8% of the total projected funds). Expenditures related to goods and services accounted for 27.6% of total expenditures, Denar 1,024 million being spent therefore in the analyzed period, i.e. 38.3% execution of the total projected funds.

Government of the Republic of North Macedonia spent funds in the amount of Denar 3,673 million in the first half of 2021, accounting for 52.5% of the annual projections, being by almost twice lower compared to 2020, as a result of the exceptionally high amount of subsidies and transfers in the same period in 2020, related to the measures aimed at coping with the health and economic crisis. Subsidies and transfers is undoubtedly the highest expenditure category, accounting for 86.1%, Denar 3,163 million being spent therefore in the first half of 2021, i.e. 56.5% of 2021 projected amount.

In the first half of the year, Ministry of Health executed budget funds in the amount of Denar 3,500 million (15.1% increase in relation to the same period in 2020), accounting for 48.6% of its total 2021 budget. Expenditures related to goods and services accounted for the most in the total expenditures with 61.0%, Denar 2,135 million being executed therefore in the period January - June 2021, or 59.7% of the funds projected for 2021. Current transfers to extra-budgetary funds were the second highest expenditure category, accounting for 31.9% of the total expenditures, funds in the amount of Denar 1,117 million being executed therefore in the analyzed period, i.e. 40.6% of total projected ones.

In the period January – June 2021, Ministry of Transport and Communications executed funds in the amount of Denar 1,047 million, accounting for 19.7% of its total 2021 budget, being lower by 22.2% compared to 2020. Capital expenditures accounted for the most in the total expenditures of this budget user, Denar 691 million (66.0% of total expenditures) being spent in the first half of 2021, accounting for 15.8% of the annual budget for this purpose. Funds in the amount of Denar 257 million were spent for subsidies and transfers, accounting for 45.5% of 2021 projections, participating with 24.5% in the total expenditures.

### **3.2. Public Debt Management**

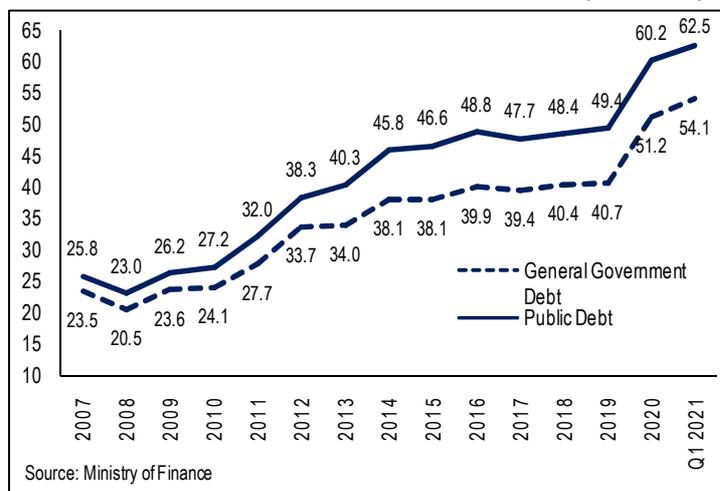
At the end of Q1 2021, government debt of the Republic of North Macedonia amounted to EUR 6,207.8 million, i.e. 54.1% of the projected GDP for 2021, while public debt<sup>7</sup> amounted to EUR 7,173.6 million, i.e. 62.5% of GDP (Chart 15). Thereby, compared to end-2020, share of government debt in GDP was higher by 2.9 p.p., while share of public debt surged by 2.3 p.p.. Since the beginning of the crisis, the debt, as a result of fiscal consolidation and prudent public finances, remained at a stable level. However, COVID-19 induced crisis greatly impacted the debt amount, whereby adequate measure were undertaken aimed at reviving the economy. As a result of the undertaken measures, government debt increased, however below the European average of 12.1

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<sup>7</sup> Law on Public Debt was last amended in May 2019 ("Official Gazette", no. 98/2019), pursuant to which non-guaranteed debt is included in the definition of public debt.

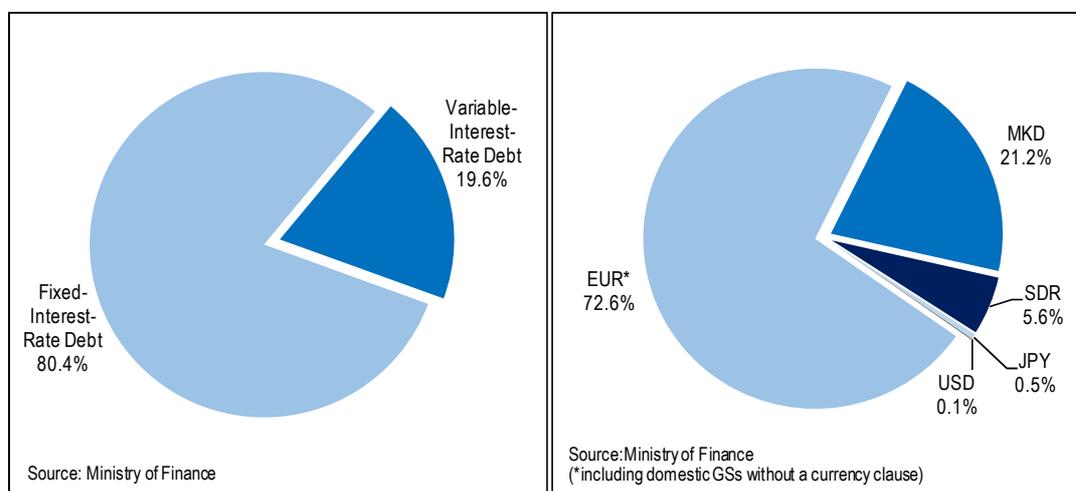
p.p., as shown in the data released by Eurostat, with Republic of North Macedonia experiencing only 10.5 p.p. increase, as opposed to Slovenia - 14.7 p.p., Croatia - 15.9 p.p., Albania - 22.9 p.p., etc.

Chart 15: Stock of Government Debt and Public Debt (% of GDP)



From interest structure point of view as regards the government debt, fixed-variable interest rate ratio was 80.4:19.6 respectively at the end of Q1 2021 (Chart 16). Analyzed by currency, Denar denominated debt accounted for 21.2% in total public debt portfolio, while share of foreign currency denominated debt was 78.8%. Thereby, share of euro-denominated debt in the total government debt was 72.6% (including government securities with FX clause), Special Drawing Rights accounted for 5.6%, share of each Japanese Yen-denominated debt and US dollar-denominated debt was 0.5% and 0.1% respectively.

Chart 16: Interest (left) and Currency Structure of Government Debt in Q1 2021



As regards the domestic market, in the period January - June 2021, Ministry of Finance issued government securities on regular basis, in line with the Calendar for Issuance of Government Securities (GS).

In the course of the first half of 2021, "Fitch" and "Standard & Poor's" Credit Rating Agencies revised the country's credit rating.

- in May 2021, Fitch Ratings affirmed North Macedonia's credit rating at 'BB+' with a negative outlook. North Macedonia's ratings are supported by favourable governance, ease of doing business indicators, and a track record of credible and coherent macroeconomic and fiscal policy that underpins the

longstanding exchange rate peg to the euro. The Agency forecasts growth to reach 3.9% in 2021 and 4.3% in 2022, with the growth outlook remaining dependent on the evolution of the pandemic in North Macedonia and key export markets. As a result of the sound economic policies, as well as the affirmed credit rating by the credit rating agencies, Eurobond was issued this year at historic low interest rate.

- in February 2021, Standard & Poor's Credit Rating Agency confirmed North Macedonia's credit rating at BB-, with a stable outlook. The Agency expects for the Macedonian economy to get back on the track of growth this year and weather the pandemic-induced shocks. What was also noted were the government efforts in strengthening the public finance system, such as the Organic Budget Law, which anticipates major reforms regarding budget planning and implementation control. Keeping the same credit rating on a continuous basis, despite the effects from the COVID-19 crisis is of exceptional significance, since it sends a positive signal to investors about the ongoing developments, thus clearly speaking in favor of their confidence in the policy actions taken in our country. Recovery of export activity, as well as public and private consumption are the driving force for the growth in 2021, while their expectations are that in 2021, the growth will stand at 3.6 percent. Growth is expected to be underpinned by domestic demand as well.