

**FISCAL SUSTAINABILITY AND ECONOMIC GROWTH SUPPORT PLAN: POLICIES,
RECOMMENDATIONS, MEASURES AND INDICATORS**

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INTRODUCTION

Timely response by the fiscal policy has hugely limited the effects of the subsequent shocks induced by global factors. Government responded timely to the end of slowing down the spillover effect of the imported inflation, thus ensuring full and stable supply of electricity and avoiding the price shocks. The measures were targeted at the vulnerable categories of citizens affected by the crisis, with the objective being to protect the living standard, maintain companies' liquidity and support investments in energy efficiency and renewable energy sources, all to the end of ensuring energy stability over the long term.

Over the medium term, amid easing of the unfavorable effects of the overlapping crises, it is expected for the global trends to get back to normal, inflationary pressures to reduce and economic activity at our major trading partners to strengthen, thus contributing to increased external demand and more favourable investment climate.

Recovering of the external environment will provide for more efficient implementation of the economic policies and measures contained in the Fiscal Sustainability and Economic Growth Plan, the Public Investment Plan and the Growth Acceleration Plan. Redesigned public expenditures, by intensifying the public investment cycle, as well as the measures geared towards accelerated, inclusive and sustainable economic growth, will have significant impact on both investment demand and potential for economic growth. State support aimed at strengthening the private sector and boosting the competitiveness, innovations and technological development of the enterprises, by providing alternative sources and instruments of financing, is one of the key aspects of the Growth Acceleration Plan.

Improved public finance management and strengthened medium-term budgeting in the coming period by redesigning of the budget policy and fiscal consolidation are aimed at supporting the macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the domestic economy.

In addition to the commitment to fiscal consolidation and budget savings, economy continues to be supported by investing in infrastructure projects, redesigning the public finance structure, strengthening both the transparency and the accountability, as well as the process of planning, spending and reporting on public finances.

Activities, focused on achieving the four main goals, continue:

- managing the consequences from the energy crisis and the inflation;
- continuing the fiscal consolidation and strengthening the fiscal sustainability;
- creating conducive environment for economic recovery and sustainable economic growth, and
- uninterrupted financing of the basic functions of the state and supporting the judiciary reforms and the Euro-Atlantic integration (EU and NATO).

Medium-term fiscal strategy will provide for gradual narrowing of the total budget deficit from 4.6% of GDP in 2023 to 2.5% in 2028. Primary budget deficit will accordingly decline gradually from 3.2% of GDP in 2023 to 0.4% in 2028.

Thus, a need arises to rationalise public expenditures in the medium term, as well as measure the spending effects to the end of increasing the spending effectiveness and achieving fiscal sustainability in the medium term.

Denar million

	2020	2021	2022	Budget 2023	2023 Budget Reallocation Decision	2024	2025	2026	2027	2028
TOTAL REVENUES	189,554	218,021	243,085	282,051	282,052	299,747	322,113	345,195	369,834	392,871
Tax Revenues and Contributions	173,464	196,317	220,186	250,688	253,205	269,385	289,953	311,457	334,672	357,749
Tax Revenues	106,900	125,690	142,567	162,600	162,235	172,648	187,005	201,914	218,106	233,705
Contributions	66,564	70,627	77,619	88,088	90,970	96,737	102,948	109,543	116,566	124,044
Non-Tax Revenues	11,173	13,882	17,189	19,894	17,962	20,932	22,130	22,382	22,932	22,892
Capital Revenues	1,846	1,928	2,273	2,800	2,800	3,530	3,530	3,530	3,730	3,730
Foreign Donations	3,071	5,894	3,437	8,669	8,085	5,900	6,500	7,826	8,500	8,500
TOTAL EXPENDITURES	243,421	256,906	278,596	324,810	324,811	331,436	351,964	378,140	402,998	423,887
Current Expenditures	227,306	233,498	249,959	276,059	280,609	283,504	299,394	320,252	339,781	355,170
Wages and Allowances	29,775	31,010	32,159	34,880	37,465	37,778	41,492	44,335	46,513	48,121
Goods and Services	15,423	20,110	21,001	23,631	23,733	23,401	23,500	25,100	25,955	27,455
Transfers to LGUs	21,373	21,218	23,365	26,687	27,625	28,710	28,765	30,166	32,608	35,001
Subsidies and Transfers	34,905	30,635	32,536	32,987	28,717	25,975	27,877	31,137	33,973	36,173
Social Transfers	117,799	121,439	131,758	144,951	149,849	151,667	158,388	166,387	174,580	183,021
Interest	8,031	9,086	9,140	12,923	13,220	15,973	19,372	23,127	26,152	25,399
Domestic	2,742	3,026	3,413	4,416	4,332	6,615	7,958	9,041	10,283	11,479
Foreign	5,289	6,060	5,727	8,507	8,888	9,358	11,414	14,086	15,869	13,920
Capital Expenditures	16,115	23,408	28,637	48,751	44,202	47,932	52,570	57,888	63,217	68,717
Budget Balance	-53,867	-38,885	-35,511	-42,759	-42,759	-31,689	-29,851	-32,945	-33,164	-31,016
Primary Budget Balance	-45,836	-29,799	-26,371	-29,836	-29,539	-15,716	-10,479	-9,818	-7,012	-5,617
Primary Budget Balance,% of GDP **	-6.8	-4.1	-3.3	-3.2	-3.3	-1.7	-1.0	-0.9	-0.6	-0.4

Key elements of the medium-term fiscal policy are redesigning of the budget policy and **fiscal consolidation**, aimed at supporting the macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the domestic economy.

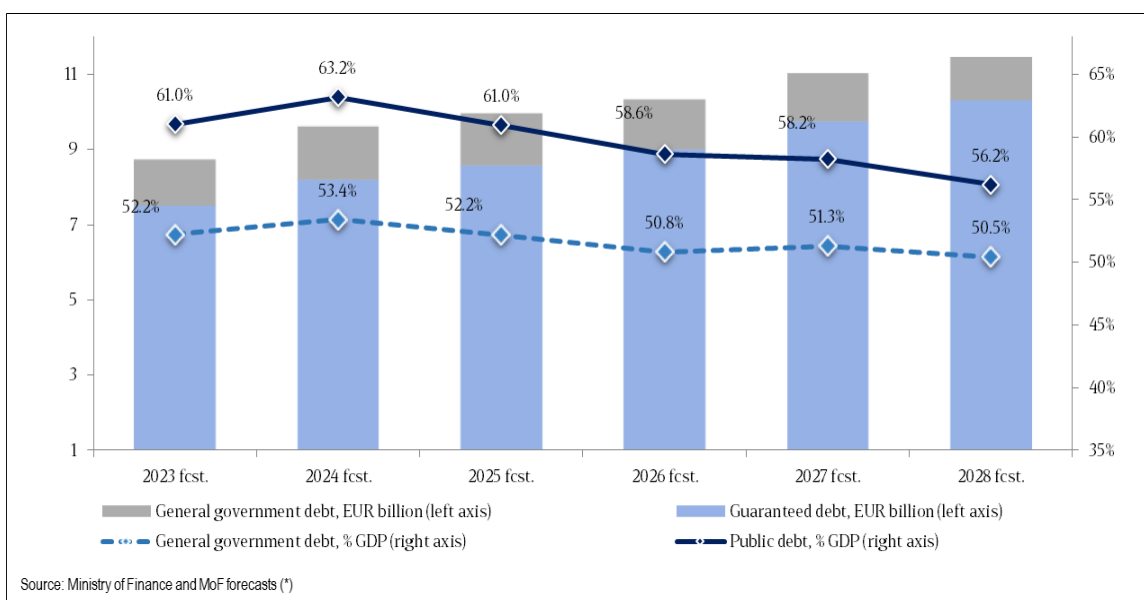
Planned fiscal consolidation covers three main aspects:

- **improving budget revenue collection**, via measures aimed at reducing informal economy and measures aimed at preventing and combatting corruption;
- **reducing and restructuring of budget expenditures**, by cutting non-priority and non-essential expenditures, greater support to the private sector and innovations aimed at strengthening competitiveness, high allocations for social protection and revision of the methodologies for transfers and subsidies, etc.;
- **changing the sources of financing the budget deficit**, greater diversification of the sources of financing the deficit, financing and implementing certain projects through public-private partnerships and establishing Development Fund for Strategic Investments.

Furthermore, Public Debt Management Strategy sets the framework for the Government to act towards prudent public debt management over the medium term. Objectives of public debt management policy are the following:

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

In line with the medium-term projections presented in the 2024 - 2028 Public Debt Management Strategy, public debt will exceed the maximum threshold of 60% in the respective period, however, as a result of the fiscal consolidation measures, it is expected to stabilize, followed by getting back to the stipulated limit of below 60% of GDP in 2026.



Analyses of budget expenditure side are incorporated in the Plan, including draft measures to rationalize the expenditures by categories, activities and measures to improve both the efficiency and the effectiveness of public revenue collection system so as to ensure better revenue collection and strengthened budget revenue side. New sources and models of budget financing are also considered.

Budget planning indicators are also included, so as to measure the spending effects in relation to public goods or public services provided or rendered by the budget users. Moreover, spending indicators, i.e spending standards for certain types of expenditures, are analyzed. The objective therefrom is to identify average expenditures at a budget user per employee, as well as other quantitative analyses, so as to identify the more cost-effective budget users. Therefore, certain spending standard is to be introduced for all budget users, also taking into account the service they render. The analysis is made to the end of achieving the following objective:

Objective: Ensuring sustainability of public finances, at the same time encouraging economic growth through the fiscal consolidation process, consistency of the policies in

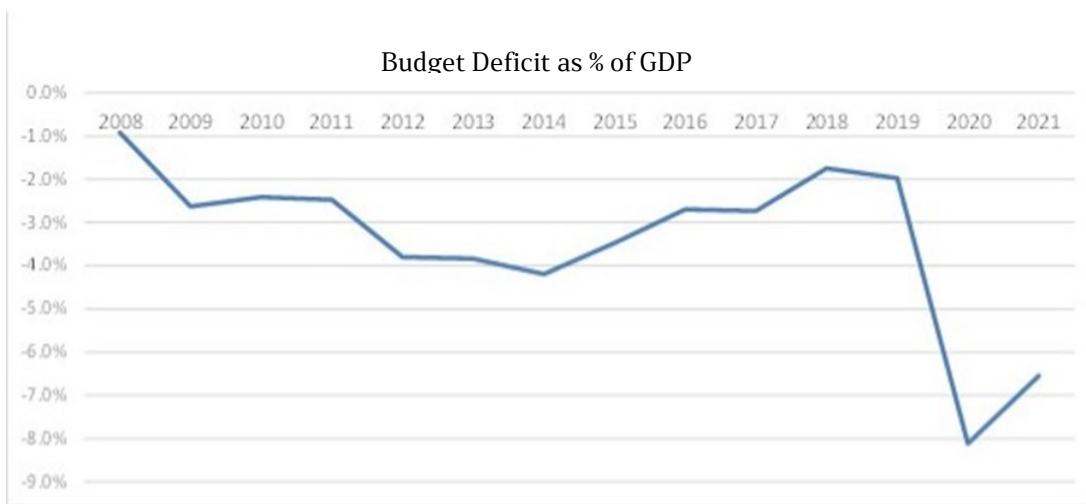
the budget planning process and development of indicators to measure the performance as regards implementation of the policies incorporated in the Budget.

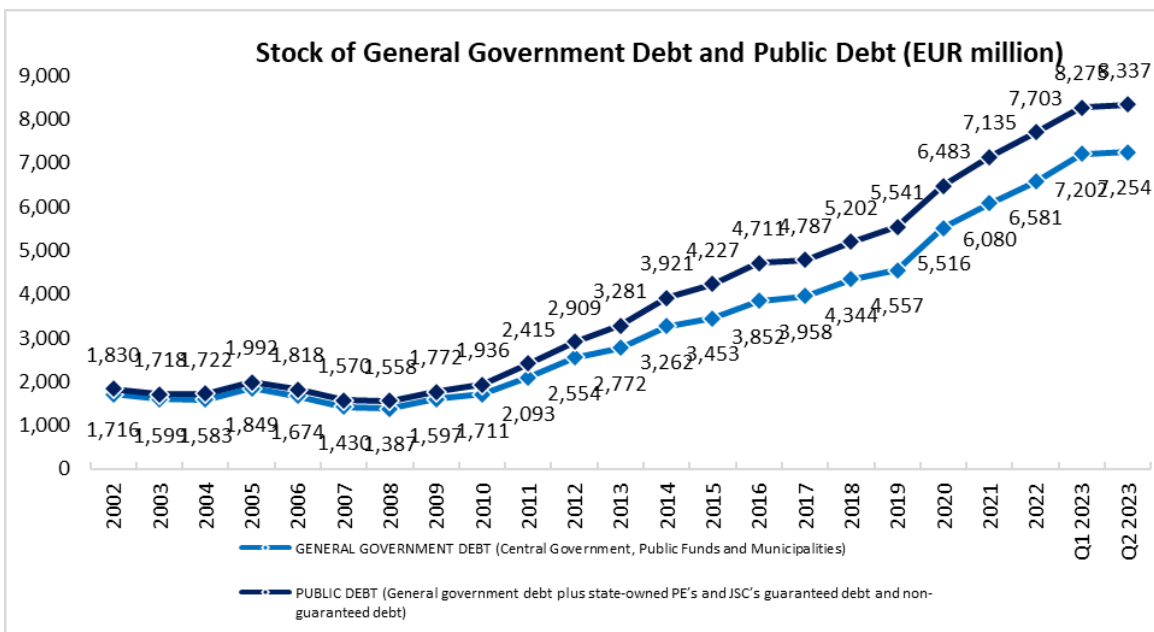
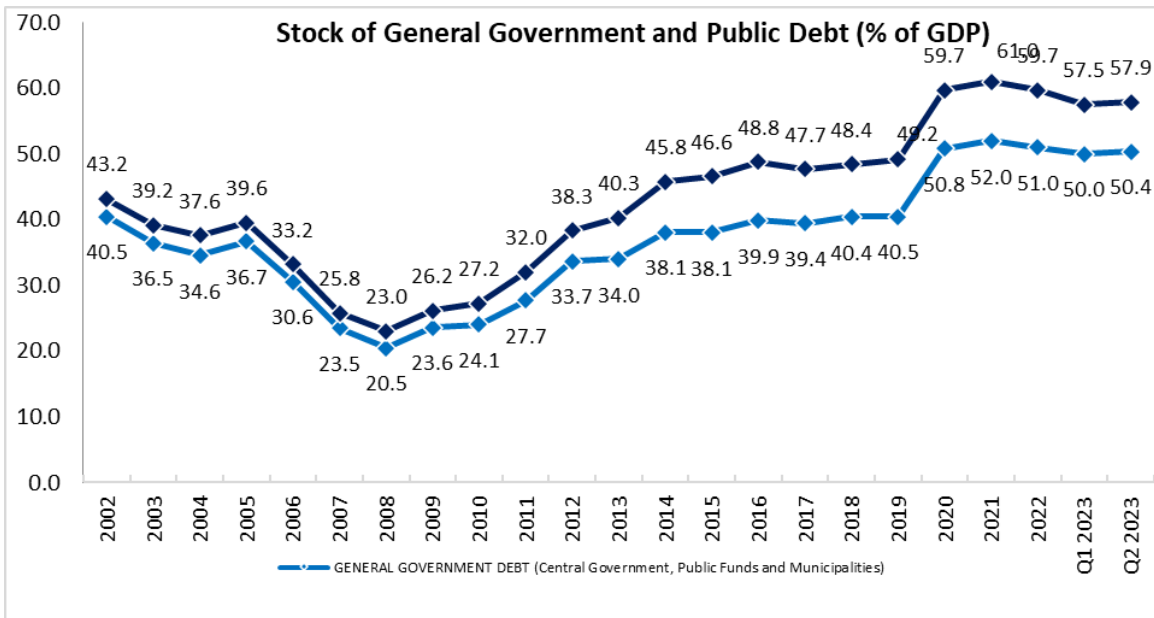
I. FISCAL CONSOLIDATION

Public finances as a whole incorporate the financial relationship and processes arising from government's activity related to performance of government functions and functioning of the public services, and they pertain to collecting public revenues and executing public expenditures to finance government's public functions. Public finances, i.e. public sector economics, focus on activities related to revenues, mostly taxation, as well as allocation of funds.

Over the past period, IMF Team carried out a mission to support the Republic of North Macedonia by introducing Spending Review as a tool to meet fiscal policy objectives. Spending Review should support the budget process by systematically examining expenditures and operationalizing high-level savings options and supporting the economic growth, thus contributing to fiscal consolidation by reducing total expenditures. Fiscal space is thus created to accommodate new priorities and improve budgeting performance.

Objective: Continuous preparation of Spending Review, the precondition therefore being establishment of a Spending Review Unit within the Budget Department at the Ministry of Finance, as well as National Spending Review Committee.





Over the past period, the world faced one of the worst economic crisis induced by the COVID-19 pandemic, which was and still is unpredictable globally and is significantly worse than the global financial crisis one decade ago. There is still great deal of uncertainty worldwide related to the duration and the intensity of this non-economic shock.

Fiscal consolidation is a process of aligning the public revenues and expenditures by reducing the expenditures and/or increasing the revenues, for the purpose of reducing the budget deficit and the public debt.

At the end of Q2 2023, general government debt amounted to EUR 7,254.2 million, i.e. 50.4% of the projected GDP. Total public debt, which includes the general government debt and the debt of public enterprises established by the state or the municipalities, the municipalities in the City of Skopje and the City of Skopje, as well as companies being fully or predominantly owned by the state or the municipalities, the municipalities in the City of Skopje and the City of Skopje amounted to EUR 8,336.7 million at the end of Q2 2023, accounting for 57.9% of the projected GDP.

In the period 2015 - 2020, total General Government¹ expenditures in the Republic of North Macedonia, as a percentage of GDP, accounted for 34.9% on average, being below the average of the Western Balkan countries (38.0% of GDP). Lower spending level was registered in Kosovo and Albania, while Montenegro experienced significantly higher spending level, accounting for almost 47.7% of GDP on average. Average for Serbia and Bosnia and Herzegovina ranged from 41% to 44% in the period 2015 - 2022, while Slovenia and Croatia, as EU Member States, registered higher level of total expenditures as percentage of GDP, ranging from 42% to 47%. Due to COVID-19 induced crisis, total expenditures in relation to GDP significantly surged in all countries in the region in 2020. Total expenditures remained high in the period that followed compared to the period before 2020 (except Montenegro) as a result of the protracted effects of COVID-19 crisis, followed by the energy and prices crisis, although all countries registered decline in total expenditures in relation to GDP.

Total Expenditures of General Government as % of GDP - comparative analysis

	2015	2016	2017	2018	2019	2020	2021	2022	Average 2015 - 2022
Albania	30.5	29.5	29.8	29.1	29.1	32.6	32.1	30.4	30.4
Bosnia and Herzegovina	44.0	41.5	40.8	39.6	40.6	43.4	40.8	40.0	41.4
Kosovo	27.6	27.7	27.8	29.2	29.7	33.0	28.9	32.4	29.5
Montenegro	50.0	46.2	46.8	46.2	45.4	55.7	46.2	44.8	47.7
North Macedonia	34.4	33.2	33.8	31.5	33.5	38.1	37.8	36.9	34.9
Serbia	42.7	41.9	40.4	40.9	42.2	49.0	47.4	46.9	43.9
Western Balkan (average)	38.2	36.7	36.6	36.1	36.7	42.0	38.9	38.6	38.0
Croatia	47.4	45.8	44.4	45.5	46.3	54.1	48.7	45.1	47.2

¹ Data refer to expenditures of the consolidated budgets of the general government, which include the consolidated budgets of the central government, budgets of the Funds and budgets of the local government, according to the methodology applied by each of the countries.

Slovenia	43.6	40.8	39.8	39.4	39.1	46.9	46.5	42.2	42.3
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Source: Ministry of Finance and Statistical Offices of the respective countries and MoF calculations

A. CENTRAL BUDGET

Budget of the Republic of North Macedonia covers the central budget and the budget of the Funds (Pension and Disability Insurance Fund, Health Insurance Fund and Employment Agency). The Table below shows the timeline for the state Budget execution, its structure, share in GDP and annual growth rates.

Budget of the Republic of North Macedonia (Central Budget and Budget of the Funds)									
Denar million	2015	2016	2017	2018	2019	2020	2021	2022	2023 Budget
TOTAL REVENUES	161,207	169,356	179,673	188,505	203,822	189,554	218,021	243,085	282,052
Tax Revenues and Contributions	140,826	150,362	157,537	170,994	178,895	173,464	196,317	220,186	250,689
Taxes	91,357	98,457	103,217	112,774	116,729	105,713	125,690	140,518	160,330
Contributions	47,900	50,300	52,890	56,538	62,166	66,564	70,627	77,619	88,089
Non-Tax Revenues	12,859	12,973	13,396	12,260	18,687	11,173	13,882	17,189	19,894
Capital Revenues	2,265	1,977	1,316	2,197	2,369	1,846	1,928	2,273	2,800
Foreign Donations	4,733	3,648	7,171	2,978	3,871	3,071	5,894	3,437	8,669
Revenues on the basis of loan repayment	524	396	253	76	0	0	0	0	0
TOTAL EXPENDITURES	180,632	185,407	196,561	200,071	217,445	243,421	256,906	278,596	324,810
Current Expenditures	161,965	168,433	176,698	187,924	199,633	227,306	233,496	249,959	276,059
Wages and Allowances	24,685	25,958	26,204	26,355	27,752	29,775	31,010	32,459	34,880
Goods and Services	18,088	16,702	15,344	14,554	16,266	15,423	20,110	21,001	23,631
Transfers	112,734	118,902	126,762	139,323	147,513	174,077	121,439	187,659	204,625
Transfers (SRA)	1,592	1,517	1,879	1,779	1,932	4,330	2,343	1,955	1,439
Social Transfers	82,903	89,005	94,690	100,678	108,129	117,799	121,439	131,758	144,951
Pensions	50,285	54,622	58,084	61,243	65,179	68,824	71,522	78,394	86,799
Unemployment Benefits	1,482	1,216	1,305	1,922	2,498	2,691	2,753	2,702	2,976
Social Benefits	7,489	7,571	8,261	8,566	9,654	11,591	12,120	12,505	13,111
Health Care	23,647	25,596	27,040	28,947	30,798	34,693	35,044	38,157	42,064
Other Transfers	28,239	28,380	30,193	36,866	37,452	51,948	49,510	53,946	58,235
Tranfers to Local Government	16,323	16,647	17,014	18,057	19,097	21,373	21,218	23,365	26,687
Agricultural Subsidies	6,583	5,596	6,600	7,039	7,399	7,088	7,987	7,682	7,490
Other	5,333	6,137	6,579	11,770	10,956	23,487	20,305	22,899	24,058
Interest	6,458	6,871	8,388	7,692	8,102	8,031	9,086	9,140	12,923
Capital Expenditures	18,667	16,974	19,863	12,147	17,812	16,115	23,408	28,637	48,751
BUDGET BALANCE	-19,425	-16,051	-16,888	-11,566	-13,623	-53,867	-38,885	-35,511	-42,759
Financing	19,425	16,051	16,888	11,566	13,623	53,867	38,885	35,511	42,759
Inflow	47,846	36,836	34,470	39,706	29,691	95,695	81,480	46,869	94,876
Other Inflows	45	125	371	287	609	960	540	906	0
Foreign Loans	19,866	30,892	3,464	32,499	8,814	65,247	61,258	24,895	66,876
Deposits	10,265	-5,318	10,549	-9,636	1,210	-6,859	-3,467	6,387	-5,626
Domestic Borrowing	17,654	11,116	20,086	16,539	19,028	36,347	23,136	14,681	33,616
Sell of Shares	16	21	0	17	30	0	13	0	10
Outflow	28,421	20,785	17,582	28,140	16,068	41,828	42,595	11,358	52,117
Repayment of Principal	28,421	20,785	17,582	28,140	16,068	41,828	42,595	11,358	52,117
Foreign	22,131	11,609	8,281	15,928	5,754	26,567	36,472	5,787	36,506
Domestic	6,290	9,176	9,301	12,212	10,314	15,261	6,123	5,571	15,611

Share in GDP									
Denar million	2015	2016	2017	2018	2019	2020	2021	2022	2023 Budget
TOTAL REVENUES	28.8%	28.5%	29.1%	28.5%	29.4%	28.3%	30.3%	30.6%	31.8%
Tax Revenues and Contributions	25.2%	25.3%	25.5%	25.9%	25.8%	25.9%	27.3%	27.7%	28.3%
Taxes	16.3%	16.6%	16.7%	17.1%	16.9%	15.8%	17.4%	17.7%	18.1%
Contributions	8.6%	8.5%	8.6%	8.6%	9.0%	9.9%	9.8%	9.8%	9.9%
Non-Tax Revenues	2.3%	2.2%	2.2%	1.9%	2.7%	1.7%	1.9%	2.2%	2.2%
Capital Revenues	0.4%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Foreign Donations	0.8%	0.6%	1.2%	0.5%	0.6%	0.5%	0.8%	0.4%	1.0%
Revenues on the basis of loan repayment									
TOTAL EXPENDITURES	32.3%	31.2%	31.8%	30.3%	31.4%	36.4%	35.7%	35.1%	36.6%
Current Expenditures	29.0%	28.3%	28.6%	28.4%	28.8%	34.0%	32.4%	31.4%	31.1%
Wages and Allowances	4.4%	4.4%	4.2%	4.0%	4.0%	4.4%	4.3%	4.1%	3.9%
Goods and Services	3.2%	2.8%	2.5%	2.2%	2.3%	2.3%	2.8%	2.6%	2.7%
Transfers	20.2%	20.0%	20.5%	21.1%	21.3%	26.0%	16.9%	23.6%	23.1%
Transfers (SRA)	0.3%	0.3%	0.3%	0.3%	0.3%	0.6%	0.3%	0.2%	0.2%
Social Transfers	14.8%	15.0%	15.3%	15.2%	15.6%	17.6%	16.9%	16.6%	16.3%
Pensions	9.0%	9.2%	9.4%	9.3%	9.4%	10.3%	9.9%	9.9%	9.8%
Unemployment Benefits	0.3%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.3%	0.3%
Social Benefits	1.3%	1.3%	1.3%	1.3%	1.4%	1.7%	1.7%	1.6%	1.5%
Health Care	4.2%	4.3%	4.4%	4.4%	4.4%	5.2%	4.9%	4.8%	4.7%
Other Transfers	5.1%	4.8%	4.9%	5.6%	5.4%	7.8%	6.9%	6.8%	6.6%
Tranfers to Local Government	2.9%	2.8%	2.8%	2.7%	2.8%	3.2%	2.9%	2.9%	3.0%
Agricultural Subsidies	1.2%	0.9%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	0.8%
Other	1.0%	1.0%	1.1%	1.8%	1.6%	3.5%	2.8%	2.9%	2.7%
Interest	1.2%	1.2%	1.4%	1.2%	1.2%	1.2%	1.3%	1.1%	1.5%
Capital Expenditures	3.3%	2.9%	3.2%	1.8%	2.6%	2.4%	3.2%	3.6%	5.5%
BUDGET BALANCE	-3.5%	-2.7%	-2.7%	-1.8%	-2.0%	-8.0%	-5.4%	-4.5%	-4.8%

Revenues and Expenditures Structure									
In million denars	2015	2016	2017	2018	2019	2020	2021	2022	2023 Budget
TOTAL REVENUES	161,207	169,356	179,673	188,505	203,822	189,554	218,021	243,085	282,052
Tax Revenues and Contributions	87.4%	88.8%	87.7%	90.7%	87.8%	91.5%	90.0%	78.1%	88.9%
Taxes	56.7%	58.1%	57.4%	59.8%	57.3%	55.8%	57.7%	49.8%	56.8%
Contributions	29.7%	29.7%	29.4%	30.0%	30.5%	35.1%	32.4%	27.5%	31.2%
Non-Tax Revenues	8.0%	7.7%	7.5%	6.5%	9.2%	5.9%	6.4%	6.1%	7.1%
Capital Revenues	1.4%	1.2%	0.7%	1.2%	1.2%	1.0%	0.9%	0.8%	1.0%
Foreign Donations	2.9%	2.2%	4.0%	1.6%	1.9%	1.6%	2.7%	1.2%	3.1%
Revenues on the basis of loan repayment	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL EXPENDITURES	180,632	185,407	196,561	200,071	217,445	243,421	256,906	278,596	324,810
Current Expenditures	89.7%	90.8%	89.9%	93.9%	91.8%	93.4%	90.9%	89.7%	85.0%
Wages and Allowances	13.7%	14.0%	13.3%	13.2%	12.8%	12.2%	12.1%	11.7%	10.7%
Goods and Services	10.1%	9.0%	7.8%	7.3%	7.5%	6.3%	7.8%	7.5%	7.3%
Transfers	62.4%	64.1%	64.5%	69.6%	67.8%	71.5%	67.5%	67.4%	63.0%
Transfers (SRA)	0.9%	0.8%	1.0%	0.9%	0.9%	1.8%	0.9%	0.7%	0.4%
Social Transfers	45.9%	48.0%	48.2%	50.3%	49.7%	48.4%	47.3%	47.3%	44.6%
Pensions	27.8%	29.5%	29.6%	30.6%	30.0%	28.3%	27.8%	28.1%	26.7%
Unemployment Benefits	0.8%	0.7%	0.7%	1.0%	1.1%	1.1%	1.1%	1.0%	0.9%
Social Benefits	4.1%	4.1%	4.2%	4.3%	4.4%	4.8%	4.7%	4.5%	4.0%
Health Care	13.1%	13.8%	13.8%	14.5%	14.2%	14.3%	13.6%	13.7%	13.0%
Other Transfers	15.6%	15.3%	15.4%	18.4%	17.2%	21.3%	19.3%	19.4%	17.9%
Tranfers to Local Government	9.0%	9.0%	8.7%	9.0%	8.8%	8.8%	8.8%	8.4%	8.2%
Agricultural Subsidies	3.6%	3.0%	3.4%	3.5%	3.4%	2.9%	3.2%	2.8%	2.3%
Other	3.0%	3.3%	3.3%	5.9%	5.0%	9.6%	7.9%	8.2%	7.4%
Interest	3.6%	3.7%	4.3%	3.8%	3.7%	3.3%	3.5%	3.3%	4.0%
Capital Expenditures	10.3%	9.2%	10.1%	6.1%	3.6%	6.6%	9.1%	10.3%	15.0%

	Annual Growth Rates								
	2015/2014	2016/2015	2017/2016	2018/2017	2019/2018	2020/2019	2021/2020	2022/2021	2023/2022 Budget
In million denars									
TOTAL REVENUES	10.5%	5.1%	6.1%	4.9%	8.1%	-7.0%	15.0%	11.5%	16.0%
Tax Revenues and Contributions	8.9%	6.8%	4.8%	8.5%	4.6%	-3.0%	13.2%	12.2%	13.9%
Taxes	9.0%	7.8%	4.8%	9.3%	3.5%	-9.4%	18.9%	11.8%	14.1%
Contributions	8.4%	5.0%	5.1%	6.9%	10.0%	7.1%	6.1%	9.9%	13.5%
Non-Tax Revenues	20.9%	0.9%	3.3%	-8.5%	52.4%	-40.2%	24.2%	23.8%	15.7%
Capital Revenues	20.9%	-12.7%	-33.4%	66.9%	7.8%	-22.1%	4.4%	17.9%	23.2%
Foreign Donations	39.9%	-22.9%	96.6%	-58.5%	30.0%	-20.7%	91.9%	-41.7%	152.2%
Revenues from repayment of loans	-28.0%	-24.4%	-36.1%	-70.0%					
TOTAL EXPENDITURES	7.5%	2.6%	6.0%	1.8%	8.7%	11.9%	5.5%	8.4%	16.6%
Current Expenditures	7.7%	4.0%	4.9%	6.4%	6.2%	13.9%	2.7%	7.1%	10.4%
Wages and Allowances	6.9%	5.2%	0.9%	0.6%	5.3%	7.3%	4.1%	4.7%	7.5%
Goods and Services	16.9%	-7.7%	-8.1%	-5.1%	11.8%	-5.2%	30.4%	4.4%	12.5%
Transfers	5.6%	5.5%	6.6%	9.9%	5.9%	18.0%	-30.2%	54.5%	9.0%
Transfers (SRA)	65.5%	-4.7%	23.9%	-5.3%	8.6%	124.1%	-45.9%	-16.6%	-26.4%
Social Transfers	5.8%	7.4%	6.4%	6.3%	7.4%	8.9%	3.1%	8.5%	10.0%
Pensions	4.6%	8.6%	6.3%	5.4%	6.4%	5.6%	3.9%	9.6%	10.7%
Unemployment Benefits	-12.9%	-17.9%	7.3%	47.3%	30.0%	7.7%	2.3%	-1.9%	10.1%
Social Benefits	15.9%	1.1%	9.1%	3.7%	12.7%	20.1%	4.6%	3.2%	4.8%
Health Care	6.9%	8.2%	5.6%	7.1%	6.4%	12.6%	1.0%	8.9%	10.2%
Other Transfers	2.8%	0.5%	6.4%	22.1%	1.6%	38.7%	-4.7%	9.0%	8.0%
Transfers to Local Government	2.1%	2.0%	2.2%	6.1%	5.8%	11.9%	-0.7%	10.1%	14.2%
Agricultural Subsidies	-0.2%	-15.0%	17.9%	6.7%	5.1%	-4.2%	12.7%	-3.8%	-2.5%
Other	9.4%	15.1%	7.2%	78.9%	-6.9%	114.4%	-13.5%	12.8%	5.1%
Interest	26.9%	6.4%	22.1%	-8.3%	5.3%	-0.9%	13.1%	0.6%	41.4%
Capital Expenditures	5.9%	-9.1%	17.0%	-38.8%	46.6%	-9.5%	45.3%	22.3%	70.2%

Fiscal consolidation and efficient and sustainable reduction of the fiscal deficit require set of measures on both budget revenue and budget expenditure side. Limited resources and necessity to finance priority projects impose a need to strengthen the performance-based budget planning process, rationalize certain expenditures and introduce adequate spending standards.

Fiscal management implies activity for continuous advancement of the budget planning system, better control over expenditures and undertaking certain draft measures, as follows:

1. EXPENDITURE SIDE
2. REVENUE SIDE
3. FINANCING

A.1 EXPENDITURE SIDE OF THE CENTRAL BUDGET

Initial activities aimed at fiscal consolidation and strengthened budget planning require analysis and control over certain expenditures of the budget users, introduction of spending standards as regards the operating expenditures, as well as undertaking activities geared towards enhanced expenditure structure.

Key policies to achieve fiscal consolidation on the expenditure side of the Central Budget are the following:

1. Current Expenditure Reduction Policy
2. Policy on Improvement of Capital Expenditure Structure and their Execution

A.1.1 Current Expenditure Reduction Policy

According to the budget classification, current expenditures cover wages and allowances, expenditures related to goods and services, transfers to LGUs, social allowances, subsidies, expenditures related to interest payments.

For the purpose of comparing the data with other countries, General Government Budget has been analyzed. Hence, current expenditures accounted for the most in the total expenditures of the General Government Budget, accounting between 87.7% and 92% in the period 2015-2022, or 89.4% on average, whereby share of current expenditures experienced a slight increase starting 2018. In relation to GDP, current expenditures in the respective period accounted for 31.2% on average, with no significant deviations over the years, except for 2020 when, as a result of the undertaken measures for coping with the pandemic effects, current expenditures accounted for 35.0% of GDP. For comparison purposes, share of current expenditures in total expenditures in North Macedonia in the period 2015 - 2022 was above the average of the Western Balkan Countries (WBC), accounting for 84.3%, thereby taking into account the significant differences among certain countries. Hence, in the respective period, in Kosovo, current expenditures accounted for 75% of the total expenditures on average, they accounted for 80.5% and 81.1% in Montenegro and Albania respectively, while their share in total expenditures in Serbia and Republic of North Macedonia was above the WBC average. Bosnia and Herzegovina had the highest average share of current expenditures in the total expenditures - 92.6% compared to WBC. In Slovenia, current expenditures accounted for 89.4% in the total expenditures (like North Macedonia), while current expenditures in Croatia accounted for 88.5% on average in the period 2015-2022.

Analyzed with respect to GDP, current expenditures of the Republic of North Macedonia were below WBC level, which accounted for 31.2% on average in the period 2015 - 2022. Current expenditures as a percentage of GDP varied considerably between countries, ranging from 22.2% in Kosovo to 38.3% in Bosnia and Herzegovina and Montenegro. Although share of current expenditures in the total expenditures in Montenegro is lower, current expenditures are at relatively high level in relation to GDP compared to the other countries in the region. In Slovenia and Croatia, share of current expenditures in GDP is higher, accounting for 37.8% and 41.7% respectively.

Share of Current Expenditures in Total Expenditures (%)

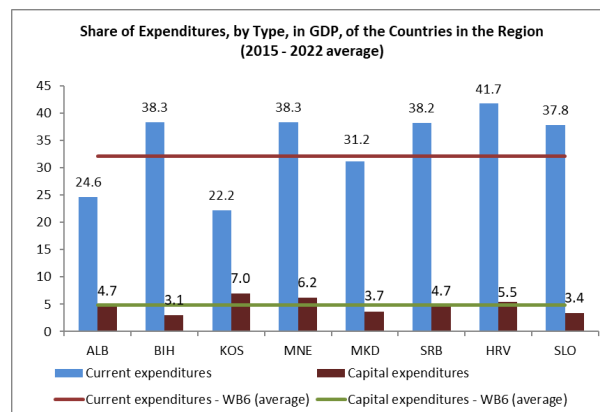
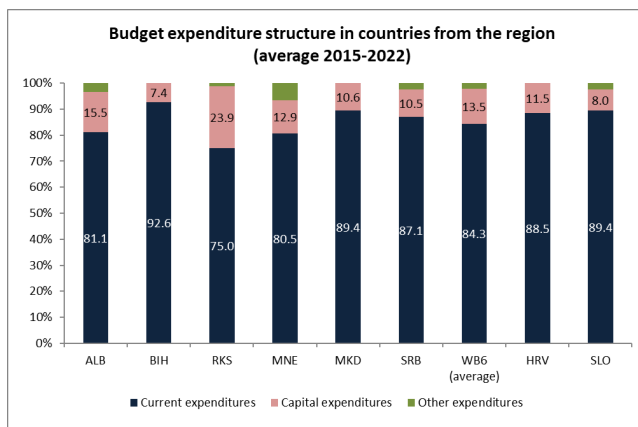
	2015	2016	2017	2018	2019	2020	2021	2022	Average
Albania	80.2	85.0	82.9	83.4	84.7	78.5	77.4	76.8	81.1
Bosnia and Herzegovina	92.2	93.1	94.5	93.1	92.4	92.7	92.7	90.4	92.6
Kosovo	73.5	73.0	72.6	71.8	73.5	81.8	79.9	73.9	75.0
Montenegro	75.7	84.6	80.2	81.5	80.8	78.8	81.0	81.7	80.5
North Macedonia	87.8	88.5	87.7	92.0	89.9	91.8	88.8	88.5	89.4
Serbia	92.0	90.4	90.8	89.1	87.4	87.2	82.3	77.5	87.1
Western Balkan (average)	83.6	85.8	84.8	85.2	84.8	85.1	83.7	81.5	84.3
Croatia	90.1	89.9	91.5	89.0	87.2	86.6	87.0	86.6	88.5
Slovenia	86.7	91.6	91.5	89.7	89.3	90.6	89.4	86.6	89.4

Source: Ministry of Finance and Statistical Offices of the respective countries and MoF calculations

Current Expenditures as % of GDP

	2015	2016	2017	2018	2019	2020	2021	2022	Average
Albania	24.5	25.0	24.7	24.3	24.6	25.6	24.8	23.4	24.6
Bosnia and Herzegovina	40.6	38.7	38.6	36.9	37.5	40.3	37.8	36.2	38.3
Kosovo	20.2	20.2	20.2	21.0	21.8	27.0	23.1	23.9	22.2
Montenegro	37.9	39.1	37.5	37.6	36.7	43.9	37.4	36.6	38.3
North Macedonia	30.2	29.4	29.6	29.0	30.1	35.0	33.6	32.6	31.2
Serbia	39.3	37.9	36.7	36.4	36.9	42.7	39.0	36.4	38.2
Western Balkan (average)	32.1	31.7	31.2	30.9	31.3	35.7	32.6	31.5	32.1
Croatia	42.7	41.2	40.6	40.5	40.4	46.9	42.4	39.1	41.7
Slovenia	37.9	37.4	36.4	35.3	34.9	42.5	41.6	36.5	37.8

Source: Ministry of Finance and Statistical Offices of the respective countries and MoF calculations



A.1.1.1. Wages and Allowances

State of Play

Expenditures related to wages and allowances in the period 2015 - 2023 amounted to around Denar 31.1 billion on average, while their average share in relation to total expenditures accounted for around 12.1%. Wage bill increase during the analyzed period was due to the following:

- increased wages at certain budget users by force of law or on the basis of collective agreement
- wage adjustment as per the minimum wage increase
- wage increase of 10% and payment of vacation allowance of 30% of the average net wage paid in the country in the previous year, in line with the provisions in the General Collective Agreement for Public Sector Employees, starting September 2023
- increased wages of elected and appointed officials, as per the Decision adopted by the Constitutional Court
- supplemental wage on the basis of overtime work and work during holidays

In July 2023, General Collective Agreement for Public Sector Employees was signed, introducing a sustainable systemic solution for continuous increase of public sector wages, which will not jeopardize the macroeconomic stability. In particular, wages of public sector employees will be indexed to the increase of the average gross wage in the country, within the nominal growth of GDP, by multiplying the coefficient of job complexity with the average gross wage. Such systemic solution will apply starting March 2025, providing for continuous increase of wages as per the labour market and productivity trends. Systemic solution for public sector wage increase is to be accompanied with public sector optimization process, i.e. a functional analysis for optimal utilization of capacities and improvement of quality of services offered by the public sector, by enhancing its efficiency and effectiveness. Employee optimization is to be carried out by a well-devised program with favourable and attractive measures for redeploying the employees to the private sector, where high labour force demand already exists.

Fiscal sustainability is a precondition for stability and economic growth and development. Increase in the wage item in the Budget, as per the General Collective Agreement for Public Sector Employees, will provide for optimizing and restructuring the other budget expenditures, all to the end of keeping the projected budget deficit, without thereby jeopardizing the development component of the Budget and pursuing the commitment to gradual fiscal consolidation. Hence, in the coming period, all laws/collective agreements regulating the minimum wage as component of the base wage are to be revised, so as to harmonize them with the General Collective Agreement for Public Sector Employees, applying the coefficients of job complexity multiplied by the average gross wage, as a more favourable solution for the public sector employees. Policy of strict control over new employments and filling the necessary vacant positions will continue applying, in particular through mobility and by taking over of employees from other institutions.

NUMBER OF EMPLOYEES AND PAID WAGES 2015 - 2022								
Year	Central Level		Funds		Local Level		State Budget	
	number of employees	total wage	number of employees	total wage	number of employees	total wage through block grants	total number of employees	total wage
2015	51,282	23,942,734,280	1,996	744,164,543	33,910	11,752,120,570	87,188	36,439,019,393
2016	51,347	25,178,849,049	2,088	777,979,022	34,191	11,964,288,132	87,626	37,921,116,203
2017	50,602	25,438,142,441	1,989	766,438,453	34,246	12,059,839,169	86,837	38,264,420,063
2018	50,722	25,610,020,222	2,036	745,372,562	34,842	12,321,043,816	87,600	38,676,436,600
2019	51,331	26,964,013,443	1,956	788,067,237	35,146	13,300,206,665	88,433	41,052,287,345
2020	51,406	28,927,448,605	1,963	846,909,137	35,198	15,356,577,674	88,567	45,130,935,416
2021	51,421	30,141,041,614	1,977	869,072,546	35,607	15,617,828,486	89,005	46,627,942,646
2022	50,181	31,301,143,092	1,902	858,902,871	35,597	16,376,615,022	87,680	48,536,660,985
2023	49,289	34,001,547,000	1,846	879,000,000	35,592	18,931,524,707	86,727	53,812,071,707

Year	State Budget		Municipalities		PHI		General Budget	
	number of employees	total wage	number of employees	total wage	number of employees	total wage	total number of employees	total wage
2015	87,188	36,439,019,393	5,744	2,384,448,595	22,181	8,023,696,000	115,113	46,847,163,988
2016	87,626	37,921,116,203	5,677	2,409,669,497	22,181	8,542,998,000	115,484	48,873,783,700
2017	86,837	38,264,420,063	5,678	2,417,473,642	19,986	8,793,522,000	112,501	49,475,415,705
2018	87,600	38,676,436,600	5,693	2,427,445,971	20,218	9,030,918,000	113,511	50,134,800,571
2019	88,433	41,052,287,345	5,655	2,531,221,032	20,880	10,309,651,000	114,968	53,893,159,377
2020	88,567	45,130,935,416	5,751	2,686,859,617	21,240	12,122,962,000	115,558	59,940,757,033
2021	89,005	46,627,942,646	6,060	2,923,931,763	20,790	12,492,652,000	115,855	62,044,526,409
2022	87,680	48,536,660,985	5,832	3,189,042,371	19,716	12,784,735,979	113,228	64,510,439,335
2023	86,727	53,812,071,707	5,900	4,026,409,054	19,412	13,504,500,000	112,039	71,342,980,761

*Wages of both municipal administration and firefighters, financed with earmarked grants and own sources, are presented

Year	General Budget		Public Enterprises and Joint Stock Companies		Public Sector	
	number of employees	total wage	number of employees	total wage	total number of employees	total wage
2015	115,113	46,847,163,988	16,774	8,712,598,000	131,887	55,559,761,988
2016	115,484	48,873,783,700	16,713	9,173,009,000	132,197	58,046,792,700
2017	112,501	49,475,415,705	16,227	9,157,823,000	128,728	58,633,238,705
2018	113,511	50,134,800,571	15,731	9,249,402,000	129,242	59,384,202,571
2019	114,968	53,893,159,377	15,410	9,655,486,000	130,378	63,548,645,377
2020	115,558	59,940,757,033	15,696	10,037,587,000	131,254	69,978,344,033
2021	115,855	62,044,526,409	15,417	10,079,428,347	131,272	72,123,954,756
2022	113,228	64,510,439,335	14,106	10,446,049,211	127,334	74,956,488,546
2023	112,039	71,342,980,761	14,553	14,047,000,000	126,592	85,389,980,761

*Number of employees in municipal public enterprises is not included

Analysis of the Number of Employees in the Public Sector in the Countries in the Region

Share of employees in the public sector in the total number of employees in the Republic of North Macedonia in 2022 accounted for 25.6%, being slightly above the Western Balkan countries' average. However, significant differences exist across the countries, the largest discrepancy being registered in Albania with the share of employees in the public sector in the total number of employees being undoubtedly the lowest, accounting for 14.4%, while in Montenegro and Kosovo (as well as Croatia), it is the highest, exceeding 27%.

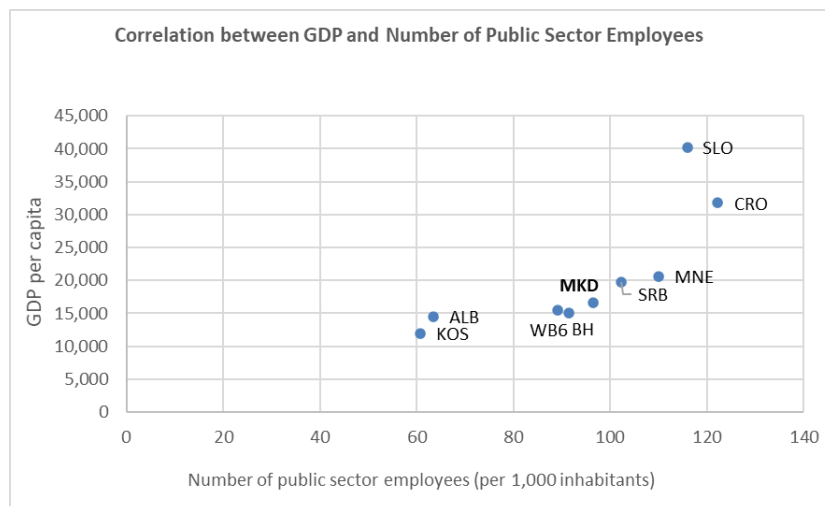
Country	Total number of employees (thousands)*	Employees in the public sector (thousands) *	% of employees in the public sector	Data for:	Population (thousands)*	Employees in the public sector (per 1,000 inhabitants)	GDP per capita in 2021 (PPP, thousands, 2017)**
North Macedonia	692.0	176.6	25.5%	2022	1,830	96.5	16,615
Albania	1,264.7	182.6	14.4%	2019	2,881	63.4	14,560
Serbia	3,017.8	702.7	23.3%	2021	6,872	102.3	19,733
Kosovo	390.1	107.6	27.6%	2021	1,769	60.8	11,999
Bosnia and Herzegovina	1,296.5	317.8	24.5%	2022	3,473	91.5	15,030
Montenegro	219.3	68.3	31.1%	2020	621	110.0	20,651
Average WB6	1,146.7	259.3	22.6%	/	2,908	89.2	15,504
Croatia	1,657.4	494.5	29.8%	2020	4,048	122.1	31,768
Slovenia	1,046.7	241.3	23.1%	2019	2,081	116	40,200

*Source: ILO, Labour Force Survey, except for North Macedonia (SSO)

**Source: IMF, WEO April 2023 and SSO (for North Macedonia)

Should countries' population be taken into account, public sector in North Macedonia employs 96.5 persons per each 1,000 inhabitants, being slightly higher than the average in the Western Balkan countries, accounting for 89.2 persons. Number of employees per 1,000 inhabitants is the highest in Montenegro and Serbia, exceeding 100 persons, being the lowest in Kosovo and Albania, ranging between 60 and 65 persons. Number of employees in the public sector in relation to the population in the analyzed countries, those being EU Member States, i.e. Croatia and Slovenia, is slightly higher, accounting for 122.1 and 116 persons respectively.

The data show that the number of employees in the public sector per each 1,000 inhabitants is closely related to the economic development of the respective country, measured by GDP per capita. Thereby, countries with higher GDP per capita (Slovenia and Croatia) employ the most persons in the public sector, while the least developed countries, such as Albania and Kosovo, employ the lowest number of persons in the public sector per capita.



Analysis of the Number of Employees in the Public Administration in the Countries in the Region

Labour Force Surveys (LFS) gather data on the number of employees in the sector Public Administration and Defence; Compulsory Social Security. According to LFS, 50,700 persons were employed in the public administration in North Macedonia in 2022. Analyzed by the share of employees in the public administration in the total number of employees, this indicator in North Macedonia accounts for 7.3%, being above the Western Balkans' average of 6.4%. As regards the countries in the region, share of employees in the public administration in the total number of employees ranges from 5.2% in Serbia to 9.1% in Bosnia and Herzegovina.

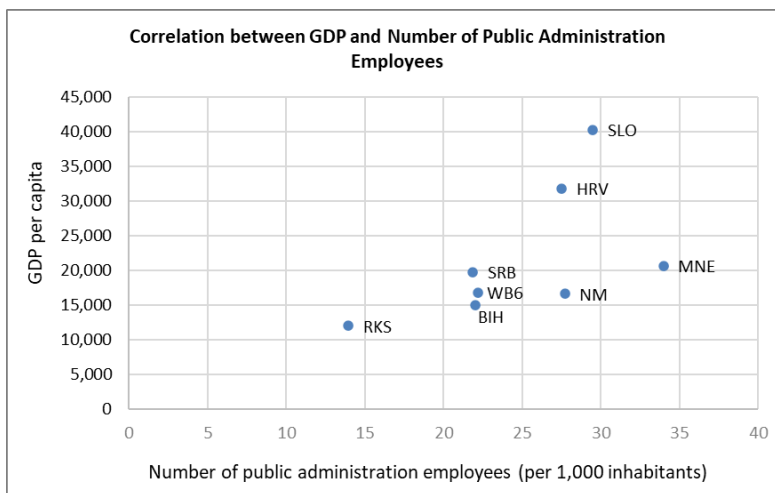
Country	Total number of employees (thousands)*	Employees in public administration (thousands)*	% of employees in public administration	Population(t thousands)**	Employees in public administration (per 1,000 inhabitants)	GDP per capita in 2021 (PPP, thousands, 2017)**
North Macedonia	692.0	50.7	7.3%	1,830	27.7	16,615
Serbia	2913.5	150.1	5.2%	6,872	21.8	19,733
Kosovo	386.9	24.7	6.4%	1,769	14.0	11,999
Bosnia and Herzegovina	840.5	76.4	9.1%	3,473	22.0	15,030
Montenegro	251.2	21.1	8.4%	621	34.0	20,651
Average WB6	1016.8	64.6	6.4%	2,913	22.2	16,806
Croatia	1527.7	111.3	7.3%	4,048	27.5	31,768
Slovenia	986.0	61.3	6.2%	2,081	29.5	40,200

*Source: Labour Force Survey, sector Public Administration and Defence, Compulsory Social Security, published by the Statistical Offices of the respective countries for 2022 (except for Kosovo (2021) and Croatia (2020)).

**Source: IMF, WEO April 2023 and SSO (for North Macedonia)

With respect to North Macedonia, 27.7 persons are employed in the public administration per each 1,000 persons, which is slightly above the average of the WB countries, which accounts for 22.2 persons. Significant differences across the countries are also observed, whereby the number of employees in the public administration per 1,000 persons is undoubtedly the lowest in Kosovo (14.0 employees per 1,000 inhabitants) and the highest in Montenegro (34.0 employees per 1,000 inhabitants). Number of employees in the public administration per capita is, in general, higher in the countries in the region - EU Member States (Croatia and Slovenia) compared to the WBC, however it is below 30 employees per 1,000 persons.

Moreover, number of employees in the public administration per capita is higher in the economically more developed countries (Croatia and Slovenia), being the lowest in the least developed country (Kosovo).



Objective: Increasing the efficiency of public administration operations by optimizing and rationalizing the working posts and introducing reward and penalty system.

Draft measures/recommendations for consolidation of expenditures related to wages and allowances

To the end of reducing the expenditures related to wages and building a professional public administration, supported by intensive digitalization, optimal structure and innovative processes and techniques, following measures and recommendations should be implemented:

- streamlining and optimizing the public sector employees on the basis of functional analysis prepared beforehand, which is a pre-condition for adopting new acts, as well as changing the organizational setup or increasing the number of systematized working posts in the existing acts on internal organizational setup and systematization. On the basis of the respective functional analysis, number of systematized working posts should be reduced and employees' efficiency and productivity should be increased. An exception to the reduction, i.e. the increase of the working posts under the systematization acts, or establishment of new organizational units should be possible only if they are related to the need for strengthening the institutional capacities of the organizational units required for the EU negotiation process.
- new employments should take place primarily via mobility and taking over of employees from other institutions in the public sector. If necessary, Ministry of Information Society and Administration should undertake adequate legal modifications, providing for the taking over of employees between any of the public sector institutions. An exception to the respective measure should be possible only if it arises from the process of strengthening the institutional capacities for the purpose of EU negotiations for fully-fledge membership of the Republic of North Macedonia.
- optimizing the costs related to overtime work by establishing a system for greater control when engaging the employees and approving the overtime work.
- revising the laws and the collective agreements and their alignment with the General Collective Agreement for Public Sector Employees, adhering thereby to the procedure when concluding the collective agreements

A.1.1.2 Goods and Services

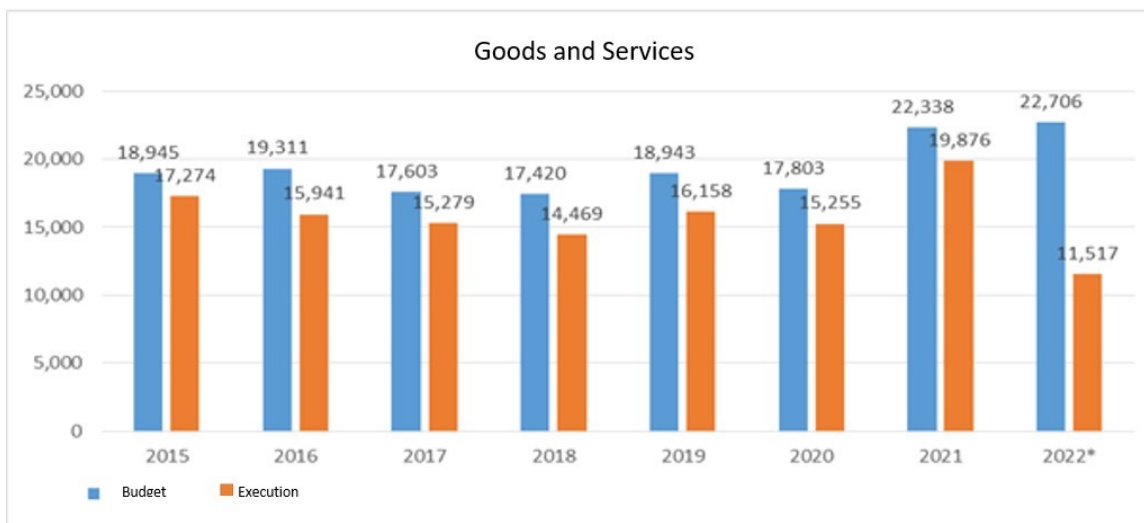
State of Play

Expenditures related to goods and services at central level in the period 2015 - 2020 amounted to around Denar 16 billion on average, while their average share in relation to total expenditures accounted for around 8%. During the respective period, such expenditures experienced a downward trend, accounting from 10% in the total expenditures in 2015 to 6.3% in 2020. This substantiates the Government's commitment to continuously reducing the less productive expenditures in the Budget of the Republic of North Macedonia. In the period 2021 - 2023, goods and services - related expenditures were higher than the average, as a result of the trends of energy product prices.

During the analyzed period, under-execution of expenditures related to goods and services in relation to the annual projections by around 15.3% on average was registered. Thus, it is of crucial importance for the budget users to adhere to projecting the expenditures related to goods and services in a realistic manner in the budget planning process already. Furthermore, in order for the downward trend of expenditures related to goods and services to continue, budget users are to adhere to the principles of cost-effectiveness and efficiency when planning and executing the expenditures so as to

contribute to strengthening the budget structure. Analyses of the trends of expenditures by type showed the possibility for rationalizing certain expenditures, presented below, accompanied with draft measures.

Denar million



Objective: More efficient use of operating resources by improving the planning and the execution of operating expenditures, reducing the non-productive expenditures, as well as introducing spending standards.

Draft measures for consolidation of expenditures related to goods and services

Budget users to project **the expenditures related to goods and services more realistically**, taking into account their continuous lower execution in relation to the annual projections

- reduction of overhead expenses and work mobile phone expenses
- reduction of operating expenses
- Budget planning for the fiscal year and the coming medium-term period to the end of reducing non-productive expenditures and more efficient use of working resources
- reducing electricity consumption by 20% in relation to the average in 2022
- reducing the mobile phone expenses by reducing the number of persons provided work mobile phones, aligning the institutions' requirements for using work mobile phones, as well as reducing the monthly fee limit for work mobile phones in relation to the previous year
- reducing the expenditures related to entertainment and advertising
- reducing the travel expenses in the country and abroad and rationalizing the number of members of a delegation travelling abroad
- number of persons joining a delegation in-person, who are members of the working groups for preparation of negotiating positions for accession of the Republic of North Macedonia to the European Union, should be rationalized.
- reducing the expenditures related to fuel and oil by setting up stricter requirements and criteria for use of official vehicles
- prudent use of office supplies and other sundries, as well as copying and printing services
- reducing the expenses related to leasing and renting space and equipment. Public sector institutions should submit information, through the line ministries, about the expenses related to leasing and renting space, while Common Service Agency should consider the possibilities for providing state-owned office space.
- reducing the expenditures related to contractual services by rationalizing the number of persons engaged, shortening the period of their engagement and reducing the amount of the agreed compensation, with most of the legal services in the institution to be rendered by its employees having the adequate qualifications
- curtailing, i.e. reducing to minimum, the procurement of vehicles on the basis of lease
- reducing the compensation for persons engaged on contractual basis
- limiting the conclusion of contractual agreements
- each institution should undertake measures to decrease the amount allocated for contractual services
- reducing the expenditures related to temporary employments by reducing the number of persons engaged as temporary employed

A.1.1.3 Current Transfers to Local Government Units (LGUs)

State of Play

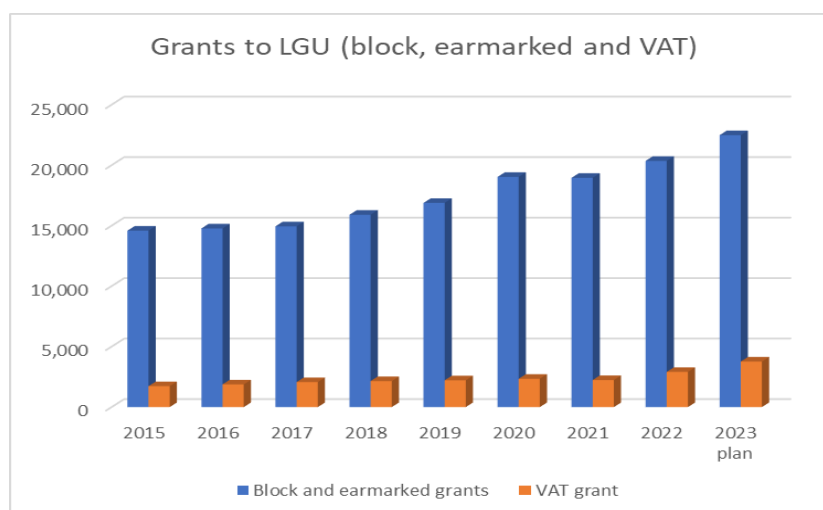
Local government is financed from own sources of revenues and transfers from the central budget in the form of VAT grants and block and earmarked grants for the transferred competences in the field of education, culture, childcare and elderly homes and firefighting. In the period 2015 - 2022, continuous increase of grant amounts, which the line ministries transferred to the municipalities, was registered, whereby transfers in 2022 were higher by Denar 6,939 million, i.e. by 42.5% compared to 2015. As regards block

and earmarked grants, funds therefor increased, amounting to Denar 5,762 million, i.e. 39.5%, while VAT grants increased by Denar 1,177 million or by 67.9%.

Review of Current Transfers to Local Government Units

Denar million

Year	Block and earmarked grants	VAT grant	Total grants to LSGU	Total budget expenditures	Total grants as % of total expenditures	Total grants as % of GDP	Annual increase of grants	GDP
2015	14,589	1,733	16,322	180,632	9.0	2.9	2.1	558,954
2016	14,773	1,876	16,649	185,407	9.0	2.8	2.00	594,795
2017	14,946	2,067	17,013	196,561	8.7	2.8	2.19	618,106
2018	15,903	2,152	18,055	200,071	9.0	2.7	6.12	660,878
2019	16,882	2,216	19,098	217,445	8.8	2.8	5.78	692,683
2020	19,030	2,343	21,373	243,421	8.8	3.2	11.91	669,280
2021	18,956	2,238	21,194	256,906	8.2	2.9	-0.84	720,414
2022	20,351	2,910	23,261	278,518	8.4	2.9	9.75	794,798
2023 plan	22,480	3,764	26,244	324,810	8.1	3.0	12.82	887,118
% of increase	39.5	67.9	42.5	54.2	-7.6	0.2	364.4	42.2



Pursuant to the latest amendments to the Law on Financing Local Government Units dated August 2022, starting 2024, percentage of VAT revenues (VAT grants) will account for 6% of the collected VAT generated in the previous fiscal year. Funds will be distributed as follows: 4.5% from the VAT revenues collected in the previous fiscal year will be allocated to the General Fund, with 0.75% of the VAT revenues collected in the previous fiscal year allocated to the Performance Fund and the Equalisation Fund each.

Under the Performance Fund, funds are awarded to the municipalities with better own revenue performance/higher own revenue collection compared to the projected own revenues and higher collection of own revenues in the current year compared to the average of own revenues collected in the previous three years. Equalisation Fund is intended for overcoming the differences in line with the fiscal capacity of the municipalities due to their limited resource capacity, i.e. the municipalities with lower PIT revenues per capita receive additional funds.

In 2023, municipalities were provided funds accounting for 5.5% of the value added tax collected in the previous fiscal year, distributed in three portions as follows: basic portion - 4.5%, performance portion - 0.5% and equalisation portion - 0.5%. As a result of the amendments to the Law which took place in the course of 2022, municipalities were allocated additional Denar 291 million, with funds for VAT grants in 2023 being higher by Denar 854 million compared to the year before. The Table below show the effect arising from the respective legal amendment.

Denar million

Value Added Tax Revenues								
	2021	2022	2023	2024	2025	2026	2027	2028
Projected in the Fiscal Strategy	58,194	68,436	78,500	79,420	86,096	93,468	100,017	107,293
New proposal: 5% in 2022, 5.5% in 2023 and 6% in 2024 and 2025		2,910	3,764	4,710	4,765	5,166	5,608	6,001

Funds for block and earmarked grants in 2023 increased by Denar 2,129 million compared to 2022.

Objective: Better quality services at the decentralised competences of the municipalities by redefining the criteria for allocation of funds by municipality and more efficient and earmarked use of grant funds, as well as streamlining the non-productive costs.

Draft recommendations for consolidation of grants to LGUs:

- revising the criteria for allocation of grants by municipality all to the end of ensuring enough funds for performing the transferred competence, especially when the municipalities do not use these funds in full, with funds remaining unused at the end of the year.
- municipalities should return the unused funds allocated as grants on the basis of transferred competences to the Budget of the Republic of North Macedonia.
- as regards primary and secondary education, rationalizing the network of primary and secondary schools, aligning the number of pupils and the number of classes with the number of teachers and determining the actual costs per pupil. When issuing consents for new employments, actual need for such new employment should be taken into account, as well as the possibility of engaging already employed persons in the schools for the purpose of meeting the educational needs. using or repurposing the available space in schools for other similar activities
- as regards child protection, optimal usage of available capacities, considering the possibility to increase the day care fee paid by the parents, taking into account that the fee has remained unchanged in the past years, matching the number of employees with the number of children in line with the set standards.
- as regards the culture sector, possibilities should be considered with respect to collecting more funds generated from self-financing activities, by organizing and holding more cultural events.
- as for firefighting, comprehensive analysis should be carried out with respect to the necessary number of firefighters, as well as adjustment of their wages and allowances.
- rationalizing the non-productive expenses funded from donations, spending units established by the municipality should carry out joint procurement of electricity.

A.1.1.4 Expenditures related to Subsidies and Transfers

State of Play

In the period 2015 - 2020, expenditures related to subsidies and transfers amounted to Denar 8.7 billion on average, accounting for 4.2% of the total expenditures or 1.4% of GDP. Increase at this category of expenditures was evident in the period 2021 - 2022 due to the health and economic crises.

- Agricultural Subsidies

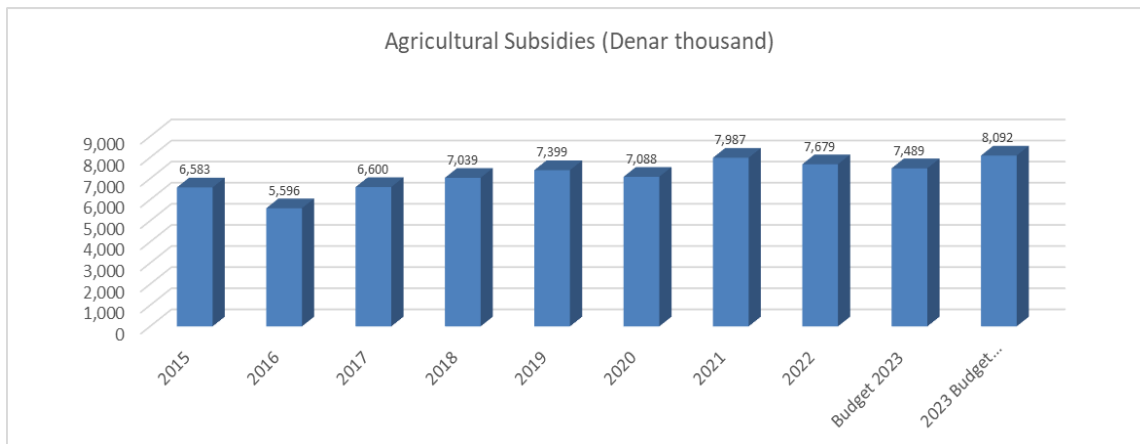
Agricultural subsidies are projected within the budget of the Agency for Financial Support in Agriculture and Rural Development, and are implemented through the following programs: Program for Financial Support to Agriculture, Program for Financial Support to Rural Development, Program for Financial Support to Organic Agricultural Production, Program for Implementation of Intervention Fund for Agriculture, Program for Encouraging Consumption of Fresh Fruits and Program for Ensuring Social Safety for Women Farmers.

They are mainly intended for support to agricultural production, investments in modernization of agricultural holdings, rehabilitation and development of villages, direct payments for crop production of various cereal and vegetable crops and grain crops and fruit plantations, assistance to livestock sector, procurement of fuel for agricultural machinery, boosting competitiveness of organic agricultural production for the purpose of successful marketing on the domestic and the foreign markets, mitigating the consequences caused by increased production costs for production of crops, non-repayable financial assistance for registered women farmers during maternity leave - a right not covered under the regulations on paid maternity leave in the field of labour relations, as well as encouraging consumption of fresh fruit.

As regards crop production, agricultural subsidies were awarded to beneficiaries cultivating the following crops: vineyards (15,899 persons), wheat (12,326 persons), barley (9,614 persons), maize (5,764 persons), alfalfa (9,298 persons), as well as around 17,288 tobacco farmers.

With respect to livestock production, subsidies were extended to 22,659 stockbreeders/beneficiaries for around 1,185,881 animals, most of them for cattle (8,797 persons), beehives (5,560 persons), sheep (2,894 persons), goats (1,536 persons).

Compared to 2021, number of animals for which subsidy applications were submitted dropped by 10.79% in 2022, while the number of beneficiaries of subsidies declined by 14.63%.



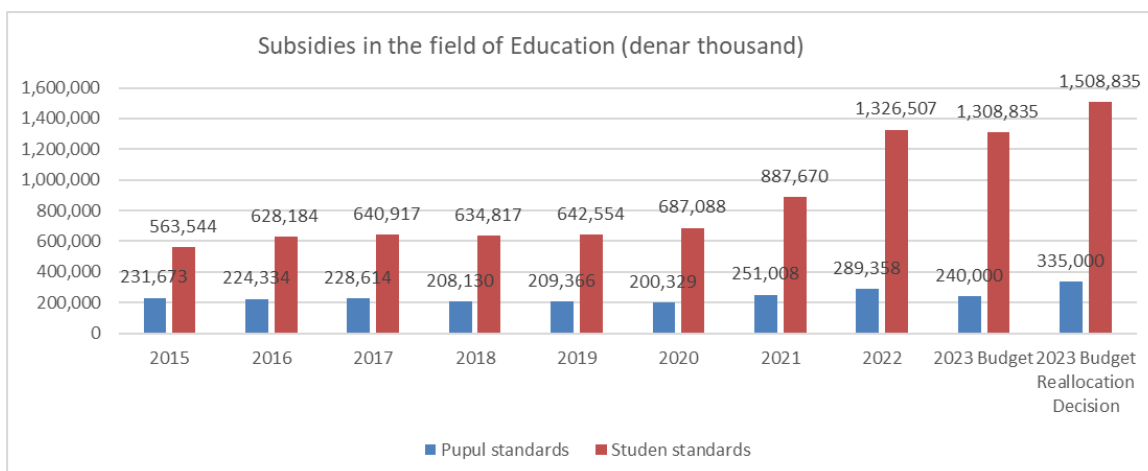
Taking into account the amount of agricultural subsidies allocated from the Budget, as well as their effects on both the agriculture and the economy, measures for their rationalization are proposed below.

- Subsidies in the field of Education

Funds are also allocated from the Budget of the Ministry of Education and Science for financing state dormitories via co-payment per pupil/student for accommodation and

meals, subsidies for various scholarships for pupils and students in the country and scholarships for students enrolled in one of the world's top 100 universities as per the last announced academic ranking of world universities by the Institute of Higher Education of Shanghai Jiao Tong University, as well as subsidies for meeting the working, cultural, informative, sports and recreational and other common needs of the students. Ministry of Education and Science makes monthly co-payments for the students and the pupils accommodated in student dormitories and pupils' homes in the Republic of North Macedonia.

Subsidies in the field of Educations		
Year	Pupul standards	Studen standards
2015	231,673	563,544
2016	224,334	628,184
2017	228,614	640,917
2018	208,130	634,817
2019	209,366	642,554
2020	200,329	687,088
2021	251,008	887,670
2022	289,358	1,326,507
2023 Budget	240,000	1,308,835
2023 Budget Reallocation Decision	335,000	1,508,835



Scholarships for students in second cycle studies abroad:

	Scholarship Type	No. of beneficiaries	Total amount by scholarship type - annual
2015/16	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	11	19,668,559
2016/17	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	13	30,017,708
2017/18	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	14	25,808,494
2018/19	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	15	37,022,660
2019/20	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	11	17,508,021
2020/21	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	19	41,721,298
2021/2022	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	7	11,141,467
2022/2023	Second cycle studies abroad - Shanghai, scholarship and enrollment fee	11	17,508,021

Recommendation/Possible Solution:

Financing pupils' and students' scholarships to be revised by targeting the beneficiaries and stimulating/subsidizing labour-market oriented educational activities.

- Subsidies in the field of Culture

On the basis of the Annual Open Calls for Financing Projects of National Relevance in the field of Culture, Ministry of Culture supports projects aimed at development, affirmation and promotion of the culture of the Republic of North Macedonia in the following activities and areas:

- protection of cultural heritage (museum activity and protection of intangible cultural heritage, library activity, protection of immovable cultural heritage and protection of audio-visual goods);
- visual arts, architecture and design;
- music and ballet and opera and folklore;
- theater;
- literature and publishing;
- international cooperation;
- interdisciplinary projects.

Legal entities and individuals - citizens of the Republic of North Macedonia have the right to participate in the Annual Open Calls. Legal entities are institutions in the field of culture (local or private), local government units, associations, unions, companies, sole proprietors and other legal entities registered in the Republic of North Macedonia to perform activities in the field of culture.

Subsidies in the field of Culture		
Denar thousand		
Year	Budget	Execution
2015	837,278	860,111
2016	864,999	854,301
2017	893,367	933,491
2018	904,000	1,027,730
2019	1,017,021	1,004,268
2020	791,559	782,125
2021	946,768	919,669
2022	897,333	881,389
2023 Budget Reallocation Decision	874,600	600,451

Recommendation/Possible Solution:

Determining stricter criteria on the basis of which the Ministry of Culture will adopt a financing decision. When setting the criteria, scope of operations of the organization/institution being allocated the funds should be taken as basis therefore:

- period of active operating of the organization;
- interested parties it covers (whether the project covers wider scope of population);
- method of registration of the organization/legal entity, i.e. whether they are registered for performing activities in the filed of culture.

- Subsidies and Transfers in the field of Economy

Funds projected in the budget of the Ministry of Economy are allocated through various programs aimed at SMEs support and development, development and boosting of the competitiveness of the Macedonian industry, ensuring energy stability and safety, development of tourism and hospitality industry, planning and sustainable usage of natural resources, as well as creating single market - internal market of the Republic of North Macedonia, aligned with the EU Acquis.

Ministry of Economy implements its priorities and goals through the following programs:

- Tourism Development in the Country

Funds under this Program are used for the activities as follows:

1. international and bilateral cooperation in tourism – increased and intensive cooperation in the field of international communication with major tourist organizations of relevance for the country's tourism
2. subsidies for tourist purposes of rural households, to the end of fostering tourism development in rural areas when constructing and adapting rural households providing hospitality services
3. support to active tourism and extreme (adrenaline) sports, subsidies for equipment and gear for the type of tourism in question, upon an opened public call
4. financial support to women's entrepreneurship in tourism via co-financing properly documented costs for purchase of equipment and tools
5. subsidizing part of the education and trainings of tourism and hospitality industry staff, via certification of private accommodation capacity staff
6. subsidies for digitalization of tourism/hospitality industry.

Ministry of Economy reimburses a certain percentage of the expenditures declared, however such reimbursement does not exceed the amount already determined by the Ministry.

- Support to Manufacturing pertaining to Competitiveness and Social Responsibility

Funds under this Program are intended for support of manufacturing pertaining to its competitiveness and social responsibility, including measures in the following fields:

A. support to the business entities in manufacturing, pertaining to their competitiveness, by:

-reimbursement of part of the costs for preparation of the export strategy, preparation of industrial design/redesign of a product, co-financing part of the costs pertaining to cooperation between companies and universities (use of laboratories at universities and research centers), co-financing costs for companies' digital transformation, preparation of project documentation for setting rooftop photovoltaic power plants for electricity generation

-reimbursement of part of the costs for laboratory accreditation, expanding the accreditation scope of existing research laboratories or laboratory equipment procurement

-reimbursement of part of the costs of business entities for fostering innovative and collaborative pilot projects pertaining to specialization, green and digital transformation

B. social responsibility, measures are aimed at:

-reimbursement of part of the costs of business entities for introduction and certification of the fair market treatment system, in line with “Fair to Consumers” certificate

-reimbursement of part of the costs of business entities for introduction and certification of the work-life balance system and gender equality

-reimbursement of part of costs of business entities for introduction, certification and recertification of the green socially responsible purchases, services, projects and business practice assessment system for the purpose of energy conservation, ecology and sustainability

- Protection of Vulnerable Energy Consumers

Beneficiaries of this Program are energy consumers under the category of vulnerable energy consumers, i.e. households: 1. which receive guaranteed minimum income and are entitled to pecuniary allowance for covering part of the energy consumption’s costs under the Law, and 2. whose total net-income, subject to taxation under the Law on Personal Income Tax, generated in 2022 by its members on monthly basis did not exceed Denar 19,000 for a single member household; Denar 25,000 for a two-member household, Denar 30,000 for a three-member household, Denar 36,000 for a four-member household, Denar 43,000 for a five or more member household.

- Financial Assistance for Electricity Generation by Preferential Producers Using Premium

Funds for implementation of this Program are intended for financial assistance pertaining to electricity generation by preferential producers using premium as an additional amount to the price attained with the sale of the generated energy on the electricity market.

Beneficiaries under this Program are electricity producers which, under the Law on Energy, have acquired the right to use of premium.

This Program’s funds are intended for payment of premium to the preferential producers generating electricity from photovoltaic power plants, with total installed capacity not exceeding 60MW. Ministry of Economy makes the payment on monthly basis, based on the submitted application for payment of premium for sold energy, generated from own production for the previous month.

- Promotion of Renewable Energy Sources and Fostering Households’ Energy Efficiency

Funds under this Program are intended for reimbursing part of the costs for:

- purchased and installed solar thermal collector systems in households
- purchased and installed PVC or aluminium windows in households
- purchase and installation of photovoltaic power plants for energy generation up to 6 kW for personal consumption by households, on a building which they have the right to ownership or use.

One individual, i.e. one household, can submit only one application for financial assistance under the Program.

- Fostering Security in Natural Gas Supply to Households

Funds under this Program are used for reimbursement of part of the costs for preparation of project documentation for connection to the natural gas distribution system and/or works on the connection to the natural gas distribution system of households up to 70%, with such reimbursement not exceeding Denar 25,000 per household, upon filled-out application and fulfillment of public call criteria.

- Support to Entrepreneurship, Competitiveness and Innovation

Funds under this Program are used for the following purposes: self-employment support, preparation of sustainable business plans with advisory support from consultants, registered in the Catalogue of Consultants in the APERNM, to support the unemployed in establishing their own business. The support is implemented according to the Operational Plan of the Ministry of Labor and Social Policy (MLSP), via APERNM Counseling Voucher Scheme.

The Program envisages support of the unemployed, with particular attention to increasing the participation of women in this program activity, as well as support for strengthening the competitiveness of the existing SMEs and establishing new enterprises, raising awareness and promotion of entrepreneurship among young people (targeting 60 participants – pupils and students), organizing trainings for teachers/professors teaching the class Entrepreneurship and Business and standardized mentoring services for SMEs in the Western Balkans – Phase 2, for the purpose of training new mentors performing mentorship for the active SMEs.

- Development of Entrepreneurship and Competitiveness of SMEs

Funds under this Program are intended for the following measures: subsidizing micro, small and medium-sized enterprises employing minimum two individuals, subsidizing artisans and individuals performing artisan activity, financial support for female entrepreneurship for digitalization of business process and support and development of internationalization of SMEs, up to a certain percentage of the substantiated costs per applicant. In order to contribute to a balanced regional development, financial support applicants under the Program receive additional financial support depending on the planning region where they submit the application.

Denar thousand

Ministry of Economy Programs									
	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Tourism Development Program in North Macedonia	25,802	17,531	16,247	30,265	24,651	3,244	27,238	4,046	26,500
Consumer Protection Program	390	400	390	535	2,000	2,000	2,000	2,000	2,000
Program for Subsidies for Installing Engines on LPG, Methane or Other Alternative Fuels	0	0	0	0	11,879	42	10,905	0	0
Basic Geological Survey Program	2,832	2,754	2,218	2,997	2,975	1,324	2,850	6,927	8,500
Program for Supporting Competitiveness of Manufacturing and Social Responsibility	2,746	2,796	2,800	7,500	8,757	4,030	3,716	8,394	31,900
1. Program for Protection of Vulnerable Energy Consumers, 2. Financial Support Program for Electricity Generation by Preferential Producers Using Premiums, 3. Program for Promotion of Renewable Energy Sources and Stimulation of Energy Efficiency in Households, 4. Program for Fostering Security in Natural Gas Supply to Households	5,951	5,911	51,344	56,990	74,613	10,501	68,255	39,715	200,000
Program for Promotion of Entrepreneurship, Competitiveness and Innovation of SMEs (APERNM)	5,200	4,943	5,496	6,649	6,737	19,146	23,444	21,352	28,300
Domestic Tourism Program for Low-Income Workers	0	0	13,210	22,819	21,935	195	19,892	24	0
Program for Development of Entrepreneurship and Competitiveness of SMEs	6,073	6,799	21,039	36,134	38,540	20,265	43,086	7,498	62,000
total	51,010	43,150	114,761	165,908	194,105	62,765	203,407	89,956	359,200

*as regards 2023, projected budget amount is presented

Draft Measures/Recommendations for Expenditure Consolidation

Rationalization of expenditure in the Ministry of Economy by redefining the criteria and the requirements for allocating funds via the Programs under the competence of the respective ministry.

Support to Businesses within the Technological Industrial Development Zones

Package of benefits offered for attracting foreign and domestic capital through the Directorate for Technological Industrial Development Zones, includes 100% foreign property, 0% taxes and customs duties, utility fee exemption, symbolical price for land lease and direct state assistance of up to EUR 1 million.

Encouraging high-quality investments in green facilities, green technologies, infrastructure and technological enhancement of domestic companies via the Strategic Green Investment Fund by providing level-playing field for investments to foreign and domestic companies and introducing new financing instruments and mechanisms.

Strategic Green Investment Fund objective is promotion of green investments in the Republic of North Macedonia, via:

- green infrastructure capacities for the investors in the zones,
- expanding the investments in health, pharmacy, energy, IT, etc.,
- attracting higher value-added investments,
- businesses investing in innovations and research and development.

Accomplished results based on the analysis of the performance effects of companies operating in TIDZ over a ten-year period (2010-2020):

- 16% average annual income growth,
- 32% average annual net-income growth,

- 55% average annual productivity growth,
- 10% average annual wage growth.

TIDZ	2018	2019	2020	2021	2022	2023
1. Number of signed NEW contracts in TIDZ		4	4	6	17	6
2. Number of employees	12,049	13,167	13,014	13,605	15,578	16,668
2a. Growth %		9%	-1%	5%	15%	7%
3. Income generated by users	137,690,827	149,107,738	135,232,076	156,297,043	200,093,874	230,107,956
3a. Growth %		8%	-9%	16%	28%	15%
4. Payments to the budget on the basis of mandatory social insurance contributions and taxes on wages and wage allowances	1,392,568	1,748,342	1,956,312	2,030,187	2,741,966	3,262,939
4a. Growth %		26%	12%	4%	35%	19%
5. Generated profit by companies - users	7,859,983	7,019,514	5,395,837	5,981,832	6,584,784	6,914,024
5a. Growth %		-11%	-23%	11%	10%	5%

Amounts in items 3, 4, 5 are in Denar thousand.

As of 2022 inclusive, amounts are obtained from the companies' official financial statements.

As regards 2023, projection based on average growth rates in previous years is presented.

- Transfers for Funding Political Parties

Political parties funding was primarily set to amount to 0.06% of the total source revenues of the State Budget according to Article 9 of the Law on Funding Political Parties ("Official Gazette", no. 76/2004).

However, under the additional modifications to the Law on Funding Political Parties ("Official Gazette", no. 140/2018), the aforementioned percentage of 0.06% is replaced by 0.15%.

In times of health and energy crisis, the Law on Modifications to the Law on Funding Political Parties ("Official Gazette", no. 294/2020) prescribes for the annual funding of the political parties in 2020 and 2021 to amount to 0.105% of the total source revenues of the State Budget.

Concurrently, according to Article 10-a of the Law on Modifications and Amendments the Law on Funding Political Parties ("Official Gazette of the Republic of North Macedonia", no. 23/2013), funds in the amount of EUR 280.000 in Denar equivalent are also allocated for annual funding of political parties research and analytical centers, established under law as part of the internal organization of the political party.

In accordance with the Law on Political Party Research and Analytical Centers, budget funds under the State Budget intended for PPRAC funding are allocated to the first four political parties, with an established PPRAC, having the largest number of members in the Parliament elected at the last held parliamentary elections. Each of the established PPRACs is allocated additional budget funds in the amount of EUR 10.000 in Denar equivalent annually, solely for employee training purposes.

As per the annual political parties' funding, amount of funds and their allocation are projected on the basis of source budget revenues, i.e. total revenues, including tax revenues, social contributions, donations, loans and self-revenue accounts.

Taking into account that only tax revenues are source revenues not being allocated, they can be used as basis for determining the amount of the funds intended for funding political parties.

Thereby, other revenues earmarked for certain projects and activities cannot be allocated for political party funding.

Recommendation/Possible Solution:

Political party funding is to be based on tax revenues instead of source revenues, i.e. modification to the Law on Funding Political Parties is to be made.

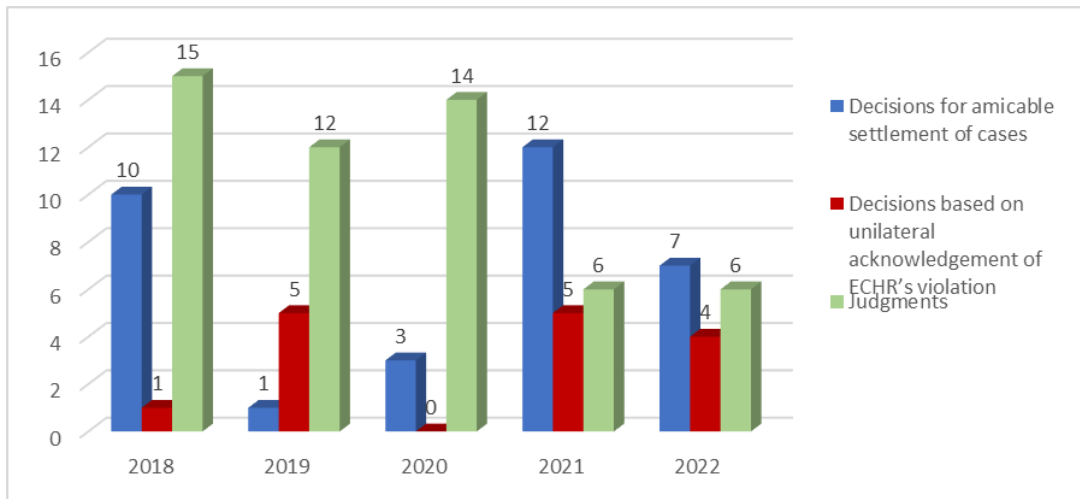
- Subsidies and Transfers for Representation of the State before the European Court of Human Rights

Number of applications filed before the ECtHR against the Republic of North Macedonia during 2022 seems to have maintained the same increasing trend as in 2021. Correspondingly to the previous years, during 2022, this number was above the European average measured according to the index of applications allocated per 10,000 inhabitants, which at European level during 2022 was to 0.54. Per this index, Republic of North Macedonia ended up in 7th place within the family of member states of the Council of Europe with an index of 2.00 in 2022. The number of applications before the ECHR allocated per 10,000 citizens against the state was 1.90 in 2021, 1.32 in 2020, 1.26 in 2019, 1.47 in 2018, 1.66 in 2017, 1.64 in the course of 2016, positioning the country at the 7th place in 2021, the 12th place in 2020, the 11th place in 2019, the 9th place in 2018, and the 11th place both in 2017 and 2016, among the member states of the Council of Europe.

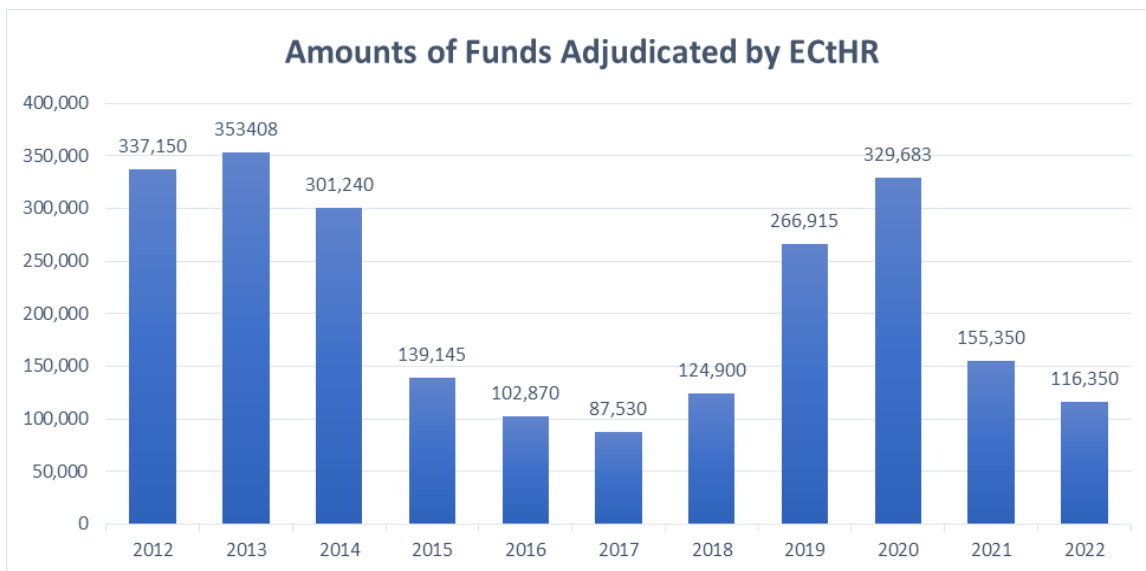
Since the country ratified the European Convention on Human Rights on 10th April 1997, the European Court of Human Rights has adjudicated 191 judgements and 526 decisions on admissibility and decisions to remove applications from the list of cases before the Court in cases against North Macedonia. Out of the total number of judgements against the state, 154 were adopted by the Council, 35 by a committee of three judges in the so-called 'repetitive' cases, or so-called WECL – cases of well-established case law and 2 by the Grand Chamber.

During 2022, a total of 24 applications were submitted before the Bureau for Representation of the Republic of North Macedonia. In the course of the year, total of 6 judgements were delivered against Republic of North Macedonia for 12 applications in total (taking into account that the Court merged the procedure for some of them), whereof violation of the ECHR was found in only four of them, and 15 decisions were reached.

Judgements and Decisions of the European Court of Human Rights against Republic of North Macedonia for the 2018 - 2022 period



During 2022, funds awarded on all grounds by the ECtHR (judgements with asserted violations of the ECHR, decisions for amicable settlement of cases and decisions based on unilateral declaration, i.e. acknowledging ECHR's violations) amounted to a total of EUR 116,350, being a reduction of the amount of funds adjudicated by the ECtHR compared to the previous year. Record figure of EUR 353,408 were adjudicated by the Court in cases against the state in 2013.



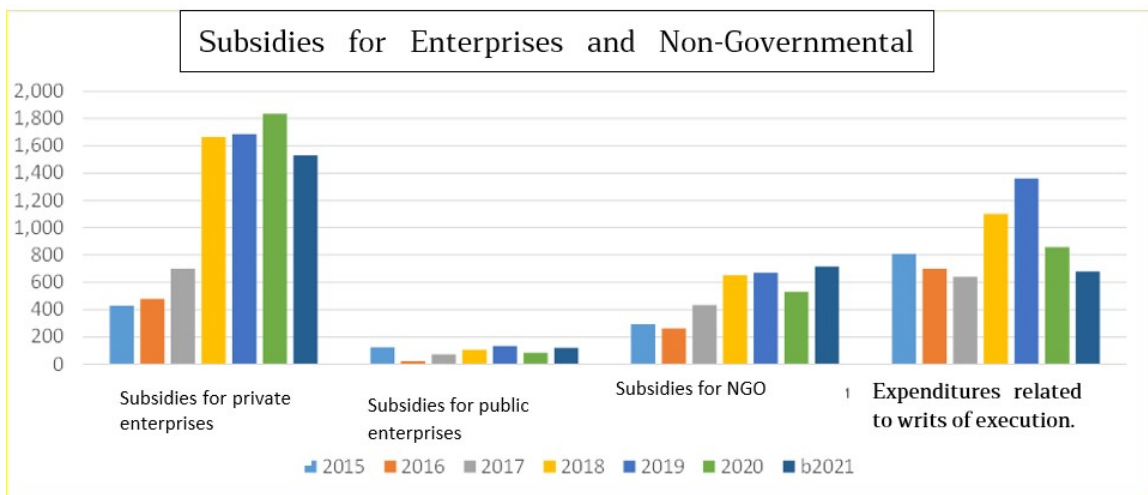
Recommendation/Possible Solution:

Observance of the European Convention for Human Rights by all competent institutions in the Republic of North Macedonia, resulting in lower fiscal implications on the Budget of Republic of North Macedonia.

- Subsidies for State-Owned Companies

Category Subsidies and Transfers also includes subsidies for public and private enterprises, subsidies for NGOs, transfers to political parties, expenditures related to writs of execution, scholarships, national awards, transfers at retirement and other

transfers. Within the scope of other transfers, expenditures regarding the measures for tackling the COVID-19 pandemic as support to the economy are also incorporated.



Certain public enterprises and joint stock companies are allocated funds directly from the Central Budget, which funds are intended for various purposes, such as financing the broadcasting activity, i.e. the operations and the development of PRBE Macedonian Radio Television, PE National Radio Broadcasting and Agency for Audio and Audiovisual Media Services, compensation for services of public interest in the rail passenger transport, ongoing maintenance of the existing railway infrastructure on the territory of the Republic of North Macedonia, reconstruction of the sewerage network, investments in the water economy infrastructure, water supply and water troughs system, electrification, infrastructure for access, construction and reconstruction of associated facilities on pastures in state ownership, etc.

Subsidies for and Transfers to PEs and JSCs

PE/JSC	2015	2016	2017	2018	2019	2020	2021	2022	2023 Official Gazette	2023 Reallocations	2023 Budget Reallocation Decision
Macedonian Railway Transport, JSC - Skopje	390,000	437,300	458,362	430,000	430,010	414,999	436,748	486,999	450,000	360,000	90,360
Public Enterprise for Railway Infrastructure of Republic of North Macedonia - Skopje	199,995	179,993	219,713	291,865	545,917	346,846	327,313	319,967	320,000	260,000	60,260
Public Radio Broadcasting Enterprise Macedonian Radio Television	0	0	149,000	886,550	894,000	946,750	826,950	1,020,500	970,500	970,500	970,500
Public Enterprise National Radio Broadcasting	0	0	39,000	232,050	234,000	224,250	216,450	175,500	175,500	175,500	175,500
Agency for Audio and Audiovisual Media Services	0	0	12,000	71,400	72,000	69,000	66,600	54,000	54,000	54,000	54,000
Media Information Agency, state-owned JSC	40,200	41,000	41,000	44,000	55,000	44,000	40,000	60,000	48,000	48,000	52,000
Single-Member Limited Liability Company "Naftovod" (Oil Pipeline), state-owned	9,976	3,600	7,800	8,500	7,400	7,356	7,963	8,700	8,345	8,345	8,345
JSC Water Economy of Republic of North Macedonia	0	2,265	50,144	51,208	2,835	1,373	103,013	210,203	194,662	194,662	194,662
Public Enterprise Macedonian Forests	32,260	0	594	226	5,973	100,383	291,579	345,574	17,255	17,255	17,255
Single-Member Limited Liability Company Sport Center Boris Trajkovski, state-owned	141,000	180,000	0	16,100	60,000	0	75,000	60,000	60,000	60,000	60,000
Public Enterprise "Kolektorski Sistem" (Sewerage Network) - Skopje	0	0	0	0	184,997	344,558	60,000	0	40,400	40,400	17,040
Public Enterprise for Pasture Management - Skopje	0	2,379	596	978	262	20,585	422	21,134	13,000	13,000	13,000

- Electricity Subsidies

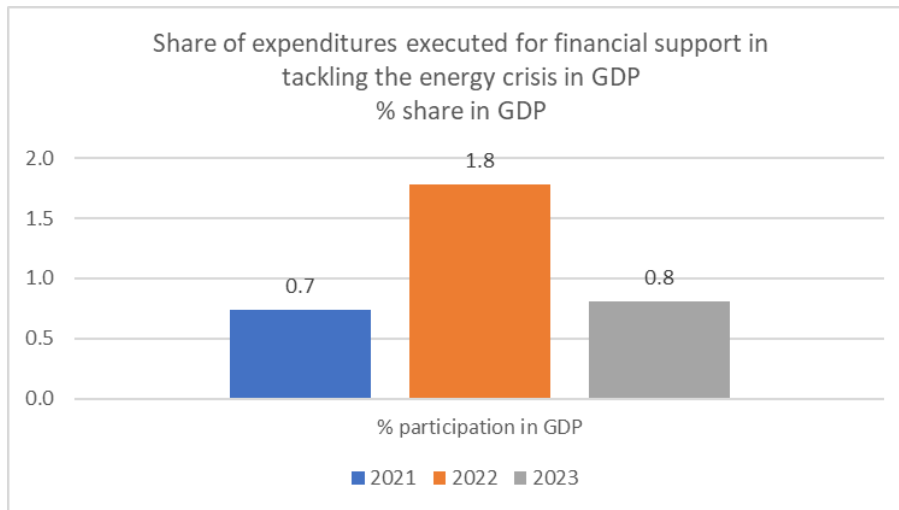
In the past period, as a result of the energy crisis and increase of energy prices, Government of the Republic North Macedonia responded in a timely manner with a budget support to JSC "ESM", to the benefit of the citizens and their protection against the big raise of electricity price, by covering In view of this, also considering the electricity supply crisis on the whole territory of the Republic of North Macedonia, funds in the amount of Denar 5.3 billion and Denar 14.2 billion were allocated from the 2021 Budget and the 2022 Budget respectively.

Support continued to be extended to the energy and electricity sector (electricity and heating) in the course of 2023 as well, amounting to Denar 3.8 billion.

Share of Financial Support in Tackling the Energy Crisis in GDP

Denar million

	2021	2022	2023
Funds from the RNM Budget	5,294	14,164	7,195
GDP (%)	4.1	3.3	3.3
% participation in GDP	0.7	1.8	0.8



In times of energy crisis, expenditures related to financial support in 2023 accounted for 0.8% of GDP. If it hadn't been for undertaking measures for overcoming the energy crisis, budget deficit of the Republic of North Macedonia would have accounted for 3% of GDP in accordance with the Organic Budget Law.

Objective: Ensuring a more positive impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers, based on appropriately determined criteria and expected outcomes.

Draft measures/recommendations for the category – subsidies and transfers:

- in the field of agriculture – savings of around Denar 1.5 billion:

- creating a list of agricultural, vegetable and cereal crops for which there are favorable growing conditions on our territory, possibility for their marketing and long-term subsidizing (3-5 years);
- designing subsidy measures based on the previous effect of subsidizing the same and similar measure, implying an improvement of competitiveness of the agricultural sector, as well as measures for approximation to European policies;
- more adequate targeting of agricultural subsidies, to the end of introducing more stringent criteria for their approval (expanding the arable land, limiting the production/products and prices, insured arable land);
- increased awareness and education of the agricultural population on the benefits of investing in machinery and manufacturing capacities;
- using the local supply chains for agricultural products to the end of promoting local food at local restaurants;
- stimulating the farmers to purchase new equipment and build agricultural capacities, creating benefits for the farmers who have merged the agricultural production and created added value to the product;
- mandatory insurance of farmers;
- In the course of a year, frequent modifications to measures and amounts are not advised, and adding new subsidy measure to be conditioned by reducing/excluding a measure for which no public call for subsidy has been announced;
- subsidies to be paid based on a performed audit of reported factual data, as well as whether the subsidy beneficiary had settled its liabilities falling within the competence of the Public Revenue Office;
- programs to be solely intended for subsidizing farmers, not including public institutions such as: Hydrometeorological Service, JSC Water Economy, etc.
- subsidizing agricultural product marketing to be designed for the purpose of subsidizing fairs yielding effects therefrom, reducing the number of fairs to attend and reducing the number of participants to attend the fairs;
- measures for payment of subsidies in the following fiscal year not to be included in the current year's programs, as well as priority payment of arrears, followed by allocation of funds for new measures.

- in the field of education

- completing the optimization process of primary school network to determine the necessity of closing part of them (rural areas – modular schools) which will result in teaching staff surplus, on one hand, leading to expenditure decrease in MoESc, on the other hand;
- number of scholarships being part of student standards and awarded to secondary school students, as well as scholarships awarded to students of first, second and third cycle of studies in the country and abroad, through the years, is significantly rising, as well as a significant amount of funds is being allocated for regular functioning of pupils' and students' dormitories (overhead expenses and employees' wages), hence number of scholarships awarded on different basis needs to be reduced, as well as the number of their beneficiaries, according to the labour market demand and profiles which are to be financed.
- regarding the subsidized meal for students for purchasing nutritional food, it is important to note the fact that during the 2022/2023 academic year, funds intended therefore increased from Denar 120 to Denar 140 per diem and, pursuant to the legal provisions, the respective amount will be harmonized as per the inflation rate after each fiscal year, prior to the adoption of the next year's Budget. As for the need for fiscal consolidation and expenditure reduction, it is necessary to revise the adopted decision, i.e. to cut down the amount subsidized by the Government for accommodation and food in student's dormitories by the amount the students receive as a subsidy through the student meal mechanism, i.e. to significantly decrease the subsidy the Government pays for the food served in the student dormitories, as well as to raise the criteria for exercising the right to subsidized student meal according to the family's earnings, all in support of reducing the additional burden on the Budget.
- as to the scholarships awarded for first, second, and third cycle studies abroad the fiscal effect of which is significantly bigger compared to one of financing scholarships in the country, on one hand, and the effect of them studying abroad on the national economy, on the other, a proposal is put forth for limiting the number of scholarships awarded for studying abroad, by specifically setting particular study profile according to the labor market demands in the country, such as stringent controls for fulfillment of requirements upon completing their studies abroad (return to the home country, employment in a specific sector).

- in the field of culture:

- setting up stringent criteria based on which Ministry of Culture is to reach financing decision. When setting the criteria, scope of operations of the organization/institution being allocated funds should be taken as basis therefore: period of active operating of the organization, scope of interested parties and organization registration method, i.e. whether the organization is registered for performing activities in the field of culture.

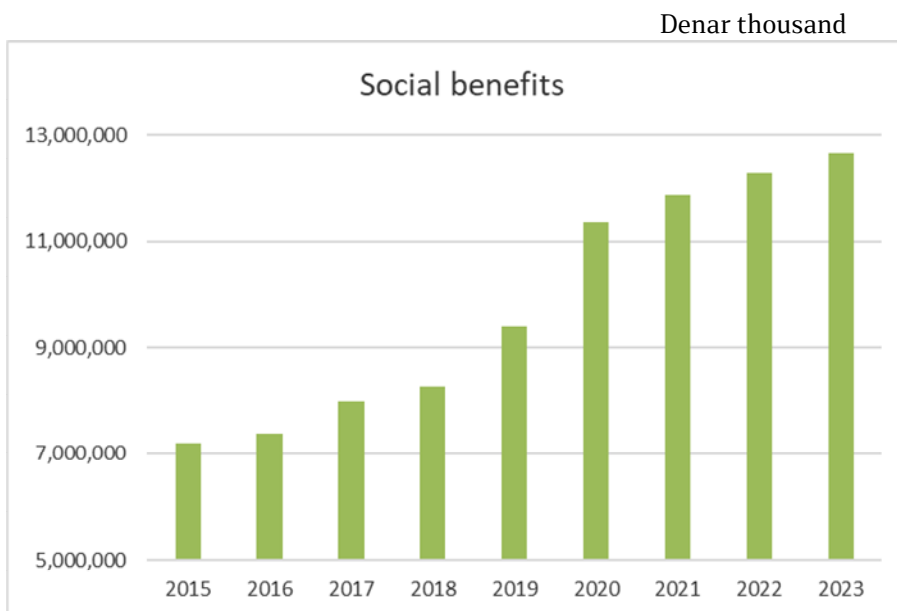
-in different fields:

- reducing subsidies for NGOs
- reducing subsidies to PE/companies
- reducing the amount of scholarships and prizes in the field of sport, as well as modifying legal solutions, to the end of reducing transfers to sport federations and youth associations
- funding political parties should be based on tax revenues in lieu of source revenues, i.e. modifications to the Law on Funding Political Parties are necessary.

A.1.1.5 Expenditures related to Social Allowances

State of Play

In the period 2015 - 2023, social allowance expenditures (individual amount and number of beneficiaries) experienced continuous increase from Denar 7.5 billion in 2015 or 1.3% of GDP to Denar 12.7 billion or 1.4% of GDP, increasing by 57%.



Pursuant to the Law on Social Protection dated 2019, reform was undertaken regarding the rights to cash transfer for social protection, as follows:

- guaranteed minimum income is introduced,
- existing rights to cash allowance for social protection are redesigned,
- rights to cash allowance are combined, beneficiaries of guaranteed minimum income are provided to use child allowance and education allowance for the first time for children regularly attending classes in primary and secondary school,
- administrative procedure for acquiring rights to cash allowance is streamlined (same approach for the income assessment of beneficiaries of guaranteed minimum income and rights to child protection - education allowance and child allowance, will allow for one application to be submitted for determining eligibility for different rights for cash transfer),
- strengthened stimulus for the beneficiaries of guaranteed minimum income so as all able-working members of a household to opt in the active employment programs for the purpose of their training for work and employment,

- guaranteed minimum income, as well as Denar 1,000 monthly during the winter season to cover heating costs, are envisaged for the persons/households at risk due to their well-being uncertainty,
- right to allowance due to disability is introduced, enabling the parents taking care of their child with disabilities, who have not placed the child in a social care institution, to acquire the right to cash allowance at retirement age, in cases when they have not acquired the right to pension on any other bases,
- developing social services to be provided in the beneficiary's home, the community and outside the family, as well as innovative and prompt social services.

Financing Social and Child Protection

Social and child protection is financed by means of adopting the Program for Social Protection and the Program for Development of Child Protection within the Budget of the Ministry of Labor and Social Policy.

The Program for Social Protection regulates in depth the social protection areas, population needs and the manner and the funds for exercising the social protection, improvement and development of social protection services and measures according to citizens' needs.

The social protection system allows for exercising the rights to cash allowance, such as right to guaranteed minimum income, one-time cash assistance, allowance for assistance and care by another person, disability allowance, wage supplement for part-time work, permanent allowance and right to social security for elderly.

TObjective: Optimizing social assistance beneficiaries by adequately targeting the use of social benefits and proactive role on the labor market

Draft measures/recommendations for social allowances:

- strengthening the control over social assistance beneficiaries
- strengthened criteria for exercising social rights
- revising the monthly amount for social allowance
- more active role on the labor market to support employment of social assistance beneficiaries
- social assistance beneficiaries (in good health condition) to be engaged by the state for community service
- optimization of social assistance beneficiaries

A.1.2 Policy on Improvement of Capital Expenditure Structure and Execution

State of Play

In the 2015-2022 period, capital expenditures amounted to Denar 19.2 billion, accounting for 8.4% on average of the total expenditures, i.e. 2.8% of GDP. In retrospective, execution of capital expenditures was significantly lower than the projected amounts on annual level, underexecuting on average by around 20% in relation to the annual projections.

Capital Expenditures 2015-2023			
Year	Projections	Execution	%
2015	22,234	18,667	84%
2016	22,331	16,974	76%
2017	23,747	19,863	84%
2018	18,519	12,147	66%
2019	22,955	17,813	78%
2020	19,650	16,115	82%
2021	29,804	23,408	79%
2022	32,109	28,637	89%
2023	44,202	27,719	63%

Objective: Increased growth potential of the domestic economy, boosted competitiveness, attracting and encouraging investments by increasing the amount, the quality and the pace of execution of capital expenditures.

In order to improve capital expenditure execution, legally prescribed obligation was introduced in 2021 for the budget users to execute 15% of the capital expenditures by the first quarter inclusive, 40% as of the second quarter inclusive and 65% as of the third quarter inclusive. In the event of defaulting the respected obligation, Ministry of Finance reallocates the unused funds up to the prescribed limit to item 414 – Capital Expenditures Reserves at the same budget user, without any rights to spending. Should the budget users spend the funds up to the prescribed limit in the next quarter, Ministry of Finance, ex officio, returns the unused funds to the appropriate sub-program and item they were reallocated from. Should the budget users fail to spend the funds up to the prescribed limit in the next quarter as well, the Parliament, upon proposal by the Government, decides on the use of the funds reallocated to item 414 - Capital Expenditures Reserves. Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, at the expense of the budget users showing

underspending, their resources can be reallocated to budget users showing good execution of capital expenditures in line with the allocated budget.

Draft measures/recommendations for capital expenditures:

- activities under the Action Plan on Implementing PIMA Recommendations to be implemented to the end of improved planning, prioritization and implementation of capital investments.
- More realistic projections of capital expenditures when preparing the Budget for the fiscal year and the coming medium-term period, in support of quality and timely implementation of capital projects. Budget users not to put forth new borrowing initiatives in the event of serious delays in implementation and withdrawal of funds for the infrastructure project they implement.
- Continuing the application of the CAPEF mechanism
- Adopting a Decree by the Government prescribing methodology and guidelines for defining, preparing, reviewing, appraising, prioritising and selecting new public investment projects, monitoring and reporting on project implementation, as well as defining the role and the responsibilities of the entities involved in each phase of the public investment management in order to establish a structured and comprehensive approach for adopting decisions on proposed public investment projects.
- Strengthening the capacities of the new Public Investment Management Department in the Ministry of Finance which is to independently appraise the new public investment projects and monitor their implementation.
- Strengthening the capacities of budget users and other public entities pertaining to the preparation and appraisal of public investment projects.
- Developing a public investment management module within the new IFMIS, which will support the submission of new infrastructure projects, project appraisal and preparation, project approval and budgeting and project monitoring and reporting.
- Developing a short-term IT solution in order to create database for managing public investment projects.
- Enhancing the budget structure by increasing the share of capital expenditures in the total budget expenditures.
- Enhancing the structure of capital expenditures by reducing the less productive capital expenditures (introducing rules and standards when purchasing vehicles, furniture, equipment) and increasing the share of infrastructure capital investments having greater effects on economy.
- Recommending for the institutions to invest greater efforts in raising additional funds from the development partners in the form of grants or favorable loans, intended for implementation of their development programs, projects and investments.
- In the event of high commitment fee payment for specific projects, the Ministry of Finance retains the right to reduce the funds allocated therefore from the Budget by 50% and/or the budget user to cover the respective interest from its own budget incurred due to delays in project implementation caused by the legal entity resulting in high commitment fees.

On the basis of Public Investment Management Assessment (PIMA) carried out by the International Monetary Fund in January/February 2020, the Government, upon proposal by the Ministry of Finance, adopted Action Plan for Implementing PIMA Recommendations in December 2020, envisaging measures for gradual overcoming of the weaknesses in the public investment management system. For the implementation of the Action Plan, Minister of Finance has established an inter-institutional working group with members for all relevant institutions. According to the Action Plan, 2022-2025 PFM Reform Program, adopted by the Government in 2022, incorporates a particular priority with measures for strengthening the public finance management framework aimed at increasing the efficiency in providing public infrastructure assets, which the competent national institutions are to implement in the coming period. In particular, reforms will be gradually introduced to the end of improving the planning, the allocations and the implementation of public infrastructure projects, as well as strengthening the role of the Ministry of Finance in the process of public investment management, which will contribute to greater alignment of the budget allocations with the investment priorities of the Government, improvement of the comprehensiveness of the budget documentation so as to include all public capital investment spending and information on the financial needs for the ongoing and the new projects, introducing central oversight of the national public investment portfolio as a whole, including the monitoring and the management of the overall delivery risks. These measures are part of the reforms of the budget system to be introduced under the Organic Budget Law, in specific regard to medium-term budget planning of priorities and procedures for selection of new projects.

Reforms are aimed at:

- strengthening the role of the Ministry of Finance in the public investment management process
 - establishing a separate organizational unit to apprise and monitor public infrastructure projects, its staffing and capacity building for the purpose of performing the functions pertaining to public investment management.
- developing a public investment management module within the new IFMIS, which will support the submission of new infrastructure projects, project appraisal and preparation, project approval and budgeting and project monitoring and reporting. It will contain data on the project as a whole, from its preparation until its completion.
- adopting standard methodology for defining, preparing, reviewing, appraising and prioritising new infrastructure projects, in line with Article 20 of the Organic Budget Law (to be adopted by the Government upon proposal by MoF), specifying that the budget users have to submit, as part of the budget preparation process, pre-feasibility or feasibility study to MoF supporting all new major investment proposals, as well as that MoF will prepare an opinion to the Government (cross-sectoral working group/committee) on the basis of the results from the studies, prior to considering a certain project for financing from the Budget or any other source.
- strengthening MoF oversight of alternative infrastructure financing sources (PPP), in particular as regards public enterprises/joint stock companies, and

increasing the comprehensiveness of the budget documentation so as to incorporate all public capital investment spending, regardless of sources of funding.

- gradually supplementing public enterprises/joint stock companies' financial performance information in the MTFS with data on capital spending plans and their execution by the public enterprises/joint stock companies, including the awarding a mandate to MoF to request and compile information on public enterprises/joint stock companies and PPPs.
- presenting information on individual projects in the budget documentation, distinguishing between new and ongoing projects, and identifying cumulative expenditures, remaining balances to project completion, as well as projections.
 - introducing an obligation for mandatory completion of the template on multi-annual capital construction projects issued with the budget circular by the main budget users.
- developing a single pipeline of appraised capital projects, covering all sectors and all funding sources, and establishing a standard criteria for project selection.
 - preparing an inventory of all existing appraised projects and creating project database.
 - establishing standard criteria for selection of projects, for example having a positive NPV, and readiness for implementation.
- introducing risk-based centralized monitoring, involving high-level monitoring by MoF for most projects and closer scrutiny of projects with higher delivery risk.
 - preparing a monitoring plan to amalgamate existing information at a single point and developing procedures to fill information gaps.
- introducing a formal requirement for ex-post review of completed projects, beginning with an analytical basic completion review that includes an implementation performance assessment and lesson learned.
 - designing methods and procedures for basic completion reports for all major infrastructure projects.

At the end of December 2022, Ministry of Finance established a new Public Investment Management Department for the purpose of executing the PIM functions. The new Department is to perform activities pertaining to appraisal of public infrastructure projects, primarily from the aspect of fiscal impact, risks and sustainability, providing opinions and recommendations on projects, preparing a summary list of proposed and appraised new public infrastructure projects, consolidating priority list of public infrastructure projects, project monitoring, as well as developing and updating methodologies for project preparation and appraisal and review of pre-investment studies. The staffing process in the Department was launched at the beginning of 2023, and currently it employs 5 people, of the total planned personnel of 13.

The process of developing new Decree prescribing methodology and guidelines for defining, preparing, reviewing, appraising, prioritizing and selecting new public investment projects, monitoring and reporting on project implementation, as well as defining the role and the responsibilities of entities involved in each phase of the public investment management process, started in September 2023, with technical assistance provided by the World Bank, envisaging staff training for the methodology application.

In March 2023, IMF-FAD Mission was carried out for the purpose of defining the main public finance investment management working processes and considering the options for their integration in the budget preparation procedures. IMF Mission also discussed the development of short-term IT solution for public investment management for collecting basic information pertaining to public investment projects and creating database for managing project data from project inception to monitoring (including the impact related to climate change on infrastructure). This short-term solution is aimed at bridging the period until the new PIM module of the IFMIS becomes operational.

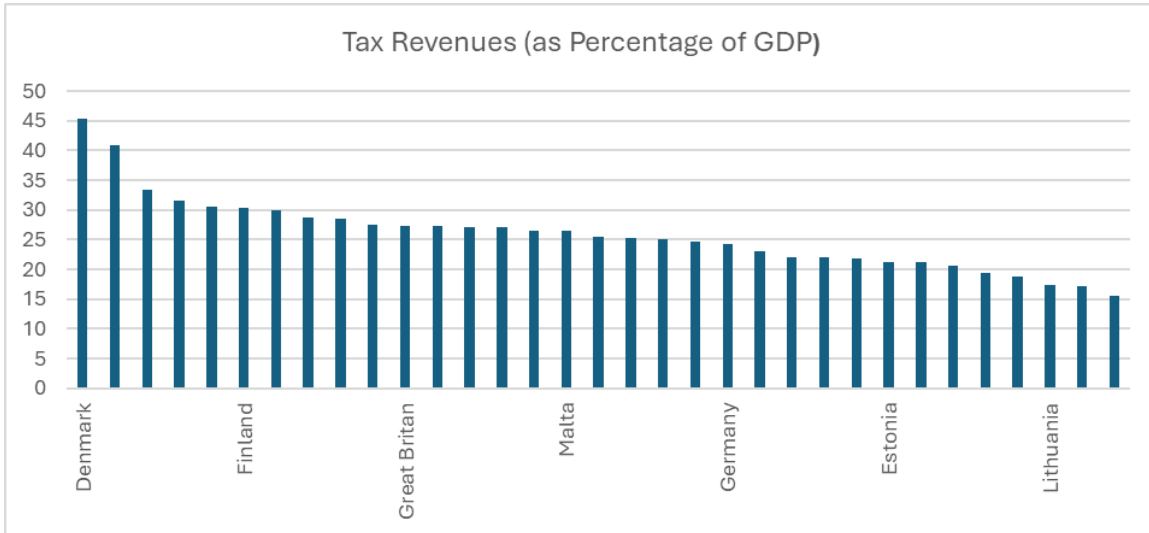
In addition, SAO findings in the Final Report on Performance Audit “Borrowing by Public Sector Entities, Credit Utilization Ratio, Paid and Incurred Costs”, have shown significantly increased costs due to commitment fee under infrastructure project loans.

Ministry of Finance indicates the need for a fast-pace technical implementation of the loan-funded projects, i.e. all technical requirements for project implementation to be met prior to the loan agreement signing which would reduce delays in project implementation, thus keeping the fees to a minimum.

In the event of high commitment fee payment for specific projects, the Ministry of Finance retains the right to reduce the funds allocated therefore from the Budget by 50% and the budget user to cover the respective interest from its own budget incurred due to delays in project implementation caused by the legal entity resulting in high commitment fees.

A. 2. REVENUE SIDE OF THE CENTRAL BUDGET

Total revenues in the Budget of the Republic of North Macedonia accounted for 29.3% of GDP in the period 2015-2022, being among the lowest ones in Europe (2022: 30.6%). State Budget revenues comprise: taxes, contributions, customs duties, excise duties, fees, revenues of public enterprises and institutions, loans and donations. Taxes and contributions accounted for 89.4% of total budget revenues on average (2022: 90.6%), while share of tax revenues alone in the total revenues accounted for 58.2% (2022: 58.6%). Tax revenues and contributions, as percentage of GDP, accounted for 26.2% of GDP (2022: 27.7%), while tax revenues accounted for 17.0% of GDP (2022: 17.9%).



A.2.1 Tax System Optimization Policy

Tax system optimization is aimed at enhancing its efficiency and effectiveness for the sake of ensuring higher revenue collection.

Numerous measures and activities need to be implemented for the purpose of enhancing the existing tax regulations in support of consolidation and expansion of the tax base as regards direct and indirect taxes and excise duties, reduced tax evasion and increased tax transparency. In parallel to these processes, further enhancement of tax and customs administration capacities is necessary by modernizing and automating the working processes, improvement of the institutional coordination, and other measures, which will, in the medium and long run, contribute to optimal use of the tax policy in support of accelerated, inclusive and sustainable growth and development of the real economy.

Moreover, by implementing credible policies based upon the best tax practices in the EU Member States and the countries in the region, as well as in line with the international tax standards, Ministry of Finance will ensure the tax system stability as one of the key pillars for maintaining sound business climate and support for boosted growth in the business sector.

OBJECTIVE: Main objective of the measures pertaining to tax system optimization is to ensure fair, efficient, transparent, neutral and modern tax system based on contemporary digital technologies and innovations in the field of taxation, all to the end of attaining accelerated, inclusive and sustainable economic growth.

In particular, this objective can be attained through broader set of measures elaborated below.

Tax Base Consolidation

Tax base of the three main types of taxes in the Republic of North Macedonia is reduced by applying tax relief and prescribed recognized expenses (PIT), tax deductions for certain business entities and tax relief for certain types of expenditures (profit tax), while with respect to VAT, preferential VAT rate are applied on certain goods and services.

Such tax relief and deductions, or so-called tax expenditures considerably contribute to narrowing the tax base, thus reducing the tax revenues.

Ove the past period, upon the carried out thorough analysis of the existing tax relief and deductions aimed at determining their justification and comprehensiveness in boosting the growth of the business sector and the national economy, as well as the need to consolidate and expand the tax base, all to the end of determining the most effective manner of increasing the tax revenues and their share of GDP, legal amendments are adopted in the field of personal income tax, profit tax and Value Added Tax, as follows:

- modifications and amendments to the Personal Income Tax Law, being applied as of 1st January 2023, stipulate taxation of capital gains generated from sale of securities and units issued by investment funds acquired from 1st January 2023, abolishment of the tax exemption as regards the paid life insurance premium, paid premium for voluntary health insurance and paid contributions in a voluntary pension funds paid by the employers on behalf of and for the account of employed people, while also determining the treatment of unrecognized expenditure for the whole amount of the life insurance premium at persons performing independent activity,
- modifications and amendments to the Profit Tax Law determine the treatment of unrecognized expenditure as regards the life insurance premiums, paid by the employers on behalf of and for the account of employed people, while also abolishing the right to reducing the calculated tax (tax credit) on the amount of funds donated to sports facilities, also stipulating obligation for paying five-fold the tax amount in cases when the taxpayer fails to prove, substantiated with documents, that he/she used the tax exemption on the basis of reinvested profit for purposes stipulated by law. In addition, under the respective law, harmonization is carried out with the Council Directive (EU) 2016/1164 of 12th July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, i.e. stipulating a general rule against abuse of arrangement or a series of arrangements, which main purpose or one of the purposes is using the tax benefits set by the Profit Tax Law,
- modifications and amendments to the Law on Value Added Tax and in line with the amendments to the EU Directive, governing the Value Added Tax, stipulate additional regulation of the place of supply of services, introducing the term tax representative for the purpose of taxation of VAT of non-resident foreign entities with no head office, while rendering supply of goods and services in North Macedonia, regulation of the tax treatment of the supply of goods and services via valuable vouchers, while additionally determining the provisions, which regulate the VAT exemption of diplomatic and consular representative offices. At the same time, goods subject to the lowest preferential tax rate are revised, i.e. VAT rate was increased from 5% to 10% on food products, not considered to be basic products, with VAT on supply of menstrual products also being reduced rom 18% to 5%, all to the end of them being more accessible to the most vulnerable groups, while also decreasing the VAT rate on digital textbooks. As regards the first sale of residential buildings and flats for residential purposes, additional postponement of the application general tax rate is foreseen. Law also foresees other measures, in line with the restrictions in the EU Directive, all to the end

of simplifying the procedure related to VAT collection or prevention of tax evasion or tax payment avoidance,

- abolishment of identified non-productive tax expenditures, i.e. those are not economically justifiable for further usage, as well as a result of the expected boosted economic activity in the medium term, it is expected for tax revenues to increase their share in GDP, which are to provide for gradual convergence with those in the EU Member States and the countries in the region. Thereby, establishing a practice of regular evaluation of tax expenditures at all tax instruments is required, as an integral part of the regular budget process.

In 2023, other measures and activities were undertaken, aimed at mitigating the consequences of the price and energy price, by proposing a new legal solution, which introduces new source of income in the taxation system, i.e. solidarity tax is introduced in 2023 as one-off, extra and temporary public tax, which introduction is of general benefit for all citizens.

By paying this type of tax, the largest companies, which in crisis situation generated extremely increased profit compared to the previous fiscal years, will jointly contribute to cushioning the consequences of the crisis at the vulnerable citizens and businesses, thus providing for redistribution of the burden of the crisis on the economically most powerful market entities. Funds collected on the basis of solidarity tax will be fully used for financing the P1 Program - Measures for Coping with COVID-19 Crisis.

In the field of international taxation, Republic of North Macedonia, as part of Pillar 1 and Pillar 2 Consensus under BESP Inclusive Framework, undertook itself to prevent the possibilities for tax avoidance, i.e. measures for preserving its tax base, and hence its tax revenues.

More specifically, under Pillar II of the Consensus, contained in the EU Council Directive 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union, introducing global minimum corporate tax rate of 15% on taxation of multinational companies, generating annual consolidated profit of over EUR 750 million.

Taking into account that the nominal corporate tax rate of North Macedonia accounts for 10%, with the effective rate being lower due to the existing tax exemptions and relief, right to top-up tax up to the level of minimum corporate tax rate of 15% would be exercised by the foreign jurisdiction, where the parent company is located. In the upcoming period, North Macedonia will carry out thorough analysis of the potential implications from the implementation under Pillar 2 Consensus under BESP Inclusive Framework on domestic market entities, which will design adequate legal framework in line with the national interests.

Draft Measures for Tax Base Consolidation:

- evaluating the effects from the adopted legal amendments as regards personal income tax and profit tax, and further regular evaluation of tax relief and exemptions at these tax instruments, all to the end of abolishing non-productive tax expenditures and/or those already accomplishing the goal for which they were adopted,
- analyzing the effects from the revised list of goods and services, which supply is taxed with preferential tax rate and its updating in line with the EU legislation and the ongoing economic and social developments in the country,
- further harmonizing the provisions in the specific tax laws with the respective EU Acquis,
- implementing in-depth evaluation of the impact on the domestic tax system, i.e. assessment of potential implications on the business sector and the public finance from the implementation of Pillar 2 Consensus under BESP Inclusive Framework and designing the most appropriate legal framework.

2.2. Reduction of Tax Evasion

Tax evasion leads to substantial loss of tax revenues, as well as creation of disloyal competition among taxpayers. Tax evasion is carried out by not registering the turnover, as well as via undeclared labor income, having adverse impact on the budget revenue collection.

Hence, for the purpose of reducing tax evasion, a series of measures and activities need to be implemented all to the end of addressing the causes of tax evasion, enhancing the capacities of inspection services, as well as strengthening the cross-border cooperation and coordination among tax administrations.

Failure to issue fiscal receipts, i.e. declare the turnover, leads to reduced tax revenues, being also the cause of informal economy. For the purpose of issuing fiscal receipts, it is necessary to intensify the dynamics and the scope of inspection controls by the Public Revenue Office.

Tax authorities are committed to introducing ever more extensive tax process digitalization. Thereby, one of the main priorities is creating a digital platform for issuing e-invoice, including the turnover via digital platforms (e-trade). E-invoice should provide for monitoring the sales in real time and significantly reducing the tax abuse and streamlining the tax controls.

At the same time, one of the active measures for increasing the fiscalization process and thus improving VAT collection is the adoption of the Law on Partial VAT Refund to Individuals and the introduction of “MyVAT” mobile application, thus refunding one portion of the paid VAT when purchasing goods and services in the country.

Amidst worldwide globalization and expansion, when companies also perform cross-border activities, and individuals earn income in several countries, except for the one wherein they are residents, a cross-border tax evasion is also possible.

Hence, the adoption of a legal framework for administrative cooperation for tax purposes will contribute to strengthening the cooperation between tax administrations, and hence the fight against cross-border tax evasion and tax avoidance, increasing the tax collection, as well as strengthening the fight against corruption and money laundering.

Moreover, by stipulating provisions for automatic exchange of information on reports by countries, tax authority will be able to assess high-level transfer pricing risks and other base erosion and profit shifting related risks.

Stipulation of provisions for automatic exchange on financial information about foreign residents, banks and other financial institutions will gather and submit reports to the tax administration, pertaining to financial accounts of non-residents.

For the purpose of efficient implementation of legal regulations upon income tax on capital gains generated from sale of securities and units issued by investment funds and preventing tax evasion, it is foreseen for the Public Revenue Office to calculate the advance payment of income tax on the capital gains generated by natural persons. This will be realized on the basis of annual data under the Central Securities Depository for acquiring and sale of securities by natural persons, as well as investment fund management companies as regards the income generated from sale of units in the investment funds.

Draft measures for reducing tax evasion:

- expanding the fiscalization scope of the supply of goods and services,
- enhancing the capacities of inspection services,
- improved inter-institutional cooperation in support of timely determination and prevention of informal economy,
- clear tax rules for the sake of creating greater legal certainty,
- adopting a legal framework for administrative cooperation for tax purposes.

Reduction of Tax Arrears and Customs Debts

For the purpose of speeding up the collection from tax and customs debtors and thus reducing the tax arrears and customs debts, it is necessary to strengthen the activities for applying measures set under the Tax Procedure Law, as well as continuously enhance the legal regulations for ensuring efficient forced collection procedures, as well as further automation of the processes related to tax arrear recording and reporting.

For the aim of accelerated tax accounts receivable collection by tax debtors, Public Revenue Office is in the process of developing effective tax arrear management system and contemporary tax accounting system with automated recording processes in the tax records.

As part of the effective tax arrear management system and tax records automation, by the end of 2023, new contemporary tax accounting system should be put into operation within the Public Revenue Office, which would show all tax accounts payables and tax

accounts receivable by taxpayers in real time, thus providing for timely and accurate tax revenue recording and collection.

For the purpose of up-to-date management of tax debts, efficient monitoring of the maturity structure, as well as undertaking activities for their accelerated collection, it is planned to develop a specific software that will allow full insight into the debt maturity and the generation of automated reports.

To the end of accelerated tax debt collection of taxpayers, intensified activities are required in view of establishing new integrated IT system that will provide for: integration of the systemic records by taxpayer; entry of obligations and payments of all types of tax liabilities in the systemic tax records; full automation of the activities for implementing all measures foreseen in the Tax Procedure Law for the purpose of collecting the tax arrears, as well as monitoring of cases and automatic generation of reports on the measures undertaken for the sake of collection, in real time.

At the same time, and in line with the regulations in the field of electronic management and electronic services, introduction of the National Interoperability Platform is of key significance, which will provide for electronic exchange of data and documents between institutions/companies in a standardized, safe, and unified manner.

Draft measures aimed at reducing tax arrears and customs debts:

- intensified implementation of the new draft law on tax procedure for collection of tax arrears and customs debts and continuous improvement of the regulations in support of ensuring more efficient procedures for forced collection of tax arrears and customs debts,
- development of efficient tax debt management system and contemporary tax accounting system with automated processed for recording in the tax records,
- development of a software for allowing full insight in the debt maturity and automated report generation,
- intensified activities for setting new integrated IT system, which will provide for: integration of systemic records by taxpayer; entering the duties and payments for all types of tax liabilities in the systemic tax records; full automation of the activities for carrying out all measures foreseen under the Tax Procedure Law, for the purpose of collecting the tax arrears, as well as monitoring cases and automatic generation of reports on the undertaken collection measures, in real time,
- improved forced collection of customs duties by amending the Law on Customs Administration, which will provide for regulating the customs debt collection by an heir in the event of death of a natural person as a customs debtor, with the access of customs officials to the databases of other institutions through the interoperability process (Employment Service Agency, Register of Birth, Marriages and Deaths and other institutions, as well as access to all other registers set by the Law on Customs Administration).

Strengthening Tax and Customs Administration Capacities

By supporting the tax administration development, strengthening their capacities, profiling competent staff and increasing the efficiency of inspection services, conditions are created for improving revenue collection.

Human potential development of Public Revenue Office and Customs Administration, through further increase in the number of inspectors and continuous investment in trainings for expanding the knowledge and improving the skills of the staff in these institutions, is one of the key factors in increasing both efficiency and effectiveness of public revenue collection.

Introducing new integrated IT system in the Public Revenue Office that covers all business processes and ensures data records in accordance with the national regulations and standards will result in rendering high-quality services for all users, thus contributing to greater efficiency of the operations of tax officials and increased tax revenue and social contribution collection.

Draft measures for strengthening public revenue collection capacities of institutions

- human resource development via increased number of inspectors and investments in the skills of tax and customs administration employees,
- introduction of new integrated IT system in the Public Revenue Office, incorporating all business process.

Excise Duties Policy and Taxation of Motor Vehicles

Ensuring greater efficiency and effectiveness of the excise duty collection system is a priority in support of continuous increase of the revenue collection thereunder. This will be attained through strengthened efficiency of controls and other activities related to eradicating illicit activities, intensified close cooperation with the national and the international partners, as well as via continuous human capital investments, improvement of the application of information technologies in the operational process of the Customs Administration, improvement of the operational process, enhanced institutional coordination, as well as improved cooperation at international level.

The established practice of transparency and inclusiveness continues in the process of adopting the regulations in the field of excise duties, with the aim of determining simple and predictable excise procedures and improving services rendered to the economic operators in support of reduced costs under the excise operations, as well as efficiency in the implementation of the regulations.

In line with the adopted Tax System Reform Strategy (2021-2025), introduction of green taxation is set as one of the priorities therein. On the basis of thorough analysis of the Decree on the Manner of Assessing Motor Vehicles Tax, in 2023, the existing Decree was revised all to the end of setting legal grounds for taxing the motor vehicles with the new WLTP method. It will provide for directly linking up the motor vehicles tax and the negative externalities caused by vehicles' CO₂ emissions, thus contributing to more effective coping with environmental pollution, as well as fight against climate change.

Protection and improvement of people's health is yet another objective, supported with the active excise policy. In fact, modifications and amendments to the 2023 Excise Law

govern the extension of the excise calendar for cigarettes as of 2030 inclusive, introduction of excise calendar for the other tobacco products as well, along with the introduction of value component of excise duty on cigars and cigarillos. In addition to the positive fiscal implications on the tax revenue amount, the increased excise duty on tobacco products also contributes, to a certain extent, to reducing the smoking prevalence in our country, thus reducing the expenditures for health protection.

Draft measures pertaining to excise duties policy and taxation of motor vehicles:

- establishing track & trace system for tobacco products,
- introducing a specific system for fuel marking,
- adopting and implementing modifications and amendments to the Decree on the Manner of Assessing Motor Vehicles Tax and the amounts necessary for assessing the motor vehicles tax,
- developing policies, systems, procedures and instruments for efficient control and collection of excise duties by harmonizing, improving and applying the regulations in line with the best national and European practices,
- further developing and strengthening of the paperless system for excise document management, all to the end of speeding up and streamlining the excise procedures and enhancing the oversight and the control over excise goods,
- increasing efficiency of excise controls by introducing targeted controls over high-risk excise goods, and
- intensifying the cooperation with the business community, developing the cooperation with the relevant agencies in the EU Member States and the international institutions.

A.2.2 Policy In Support of Reduced Informal Economy

Informal economy, which implies performance of economic activities not being registered nor reported for tax purposes, i.e. unregistered production, unregistered exchange of goods and services and/or unregistered workers, leads to non-payment of taxes and social insurance contributions. It undermines the competitiveness of both the companies and the individuals paying taxes on regular basis, and it gives an unfair and illegal “advantage” for those not meeting the legal tax requirements.

Informal economy is detrimental for both the Budget and the tax revenue collection, it undermines the integrity of the tax system, thus cutting down the funds for investments in better and quality health, education and other public services provided to all citizens.

Hence, the general purpose of the 2023-2027 Strategy for Formalization of Informal Economy, along with the 2023-2025 Action Plan thereof, is reducing the share of the informal economy in the total economic activities in the country, by decreasing the number of unregistered business entities, as well as the number of informally employed people.

It is planned for the 2023-2027 Strategy for Formalization of Informal Economy to be carried out within two priority areas, aimed at increased efficiency of public institutions, business climate improvement, increased transparency and accountability, boosted both tax morale and confidence in the public institutions, as crucial preconditions for reducing the scope and accelerated formalization of informal economy.

For the purpose of more efficient accomplishment of the general objectives within both priority areas, measures and activities are clustered in seven separate goals, such as:

Specific goal 1: Strengthening the public administration capacities for detecting, monitoring, and addressing the informal economy

Key measures within specific objective 1:

- building an institutional infrastructure for detection, quantification, monitoring and providing instructions for addressing the informal activities in the economy,
- strengthening the cooperation between institutions and digitalization of the processes of exchange of statistical data and indicators as regards the objectives related to calculation of the informal economy scale indicators and report preparation,
- preparing and publishing annual reports and other forms of reporting and communication as regards the informal economy scale and features.

Specific objective 2: Improving legal regulations and efficiency of its implementation

Key measures within specific objective 2:

- preparing and adopting new and improvement of the existing legal solutions aimed at supporting more efficient and more effective detection and reduction of informal economy,
- introducing software tools, which will provide for simplified administrative procedures when rendering public services, as well as greater insight into the operations of the institutions and the relations with other public and private sector entities,
- reducing cash for the purpose of strengthening supervision over cash flows,
- introducing greater flexibility of the labor market and regulation of new forms of work engagement by governing their tax treatment,
- including the local government in formalizing the informal economy.

Specific objective 3: improvement of business environment and creation of stimulating framework for formalization of the informal economy

Key measures within specific objective 3:

- streamlining administrative procedures in support of functioning formal sector, as well as reducing the costs for establishing micro and small-sized companies,

- measures aimed at stimulating workers providing services for households (personal services and household services), as well as other economic entities to register their business activities.

Specific objective 4: Increasing the efficiency of inspection services and sanction and penalty system

Key measures within specific objective 4:

- continuously improving the existing and engaging new staff and operating capacities of the inspection services, as well as improved coordination and inter-institutional cooperation,
- strengthening the informal economy sanctioning,
- raising the awareness of the risk for detecting and sanctioning the entries performing informal activities.

Specific objective 5: Raising awareness of informal economy and boosting the tax moral and the confidence in the institutions

Key measures within specific objective 5:

- designing and carrying out campaigns for boosting the tax morale and raising the awareness of the detrimental impact from unregistered employment and purchasing products from the informal sector,
- regular reporting on the performance from the activities undertaken for coping with the informal economy, among the other, via the national "Add Color" digital platform for fight against the informal economy.

Specific objective 6: Increasing predictability in preparing legal solutions, policies and measures

Key measures within specific objective 6:

- setting up mechanism for more efficient monitoring of the changes in the political and legal regulations, as well as bylaws, and in support of their effective and timely application by the economic entities.

Specific objective 7: Increasing transparency, accountability and integrity at all government levels

Key measures within specific objective 7:

- strengthening the cooperation between executive power and other key stakeholders in order to publicly and clearly promote the commitments and activities to reduce the informal economy,
- holding annual conferences by including the relevant institutions and stakeholders (NGOs, academicians, international organizations, chambers of commerce) for presenting the progress in eradicating the informal economy,

- strengthening the integrity and reducing the risk from all conflict of interests at all public sector levels.

Unpaid/less paid public duties/fees in the Budget of the Republic of North Macedonia set by the State Audit Office

Under the 2020, 2021 and 2022 “Annual Report on Performed Audits and Operations of the State Audit Office”, State Audit Office announced that the performed audits appointed to tax evasions, failure to pay the public duties and fees in the Budget Republic of North Macedonia. Thereby, under the 2020 Annual Report, it was notified that this amount of unpaid funds in the Budget of the Republic of North Macedonia, amounted to Denar 582,600 thousand, while amounting to Denar 1,743,644 thousand in 2021 and Denar 1,464,468 thousand in 2022. During the past period, the State Audit Office submitted to the Ministry of Finance, increasing number of reports on determined state-of-play in the final/draft audits reports pointing to less calculated, collected and paid revenues in the Budget of the Republic of North Macedonia.

As for the analysis of the determined state-of-play in the final audit reports of the State Audit Office, it is concluded that the collection of these revenues or the possibility and the probability for their collection do not always fully depend and is within the competence of the Ministry of Finance, i.e. depending on the issue/the area is sometimes the result of the non-implementation of the regulation, non-existence of sectoral or inter-institutional cooperation, inconsistent actions and follow-up on submitted reports, failure to act upon recommendations by the institutions and others.

In line with the aforementioned and for the purpose of collecting public duties/fees in the Budget of the Republic of North Macedonia, as for which, under the final audit reports of the State Audit Office, it is determined that they, as liabilities, are not timely or not settled at all, a systemic solutions is required, which will provide for: regular coordination between all stakeholders and implementation of recommendations from the performed audits.

Draft measures for regular collection of unpaid/less paid public duties/fees in the Budget of the Republic of North Macedonia set by the State Audit Office

- continuing the already set practice in terms of submitting reports by the State Audit Office to the Ministry of Finance on the determined state-of-play in the final/draft audits reports pointing to less assessed, collected and paid revenues in the Budget of the Republic of North Macedonia,
- establishing an Audit Committee by the Government of the Republic of North Macedonia (as constant expert body of the Government of the Republic of North Macedonia), which will be chaired by the Deputy Prime Minister in charge of Good Governance Policies, the members of which will be representatives from the Ministry of Finance, the General Secretariat, the Cabinet of the Prime Minister in charge of Economic Affairs, Coordination of Economic Sectors and Investments, and the State Audit Office, whereby the sessions, as per the agenda points, will

also be attended by representatives of the institutions covered by the respective audit.

Ministry of Finance will, in line with the materials submitted by the State Audit Office, and in coordination with the Cabinet of the Deputy Prime Minister in charge of Good Governance Policies, prepare the work materials required for the meetings of the Audit Committee. During these meetings, reasons giving rise to the determined state-of-play in the audit reports, will be considered in details and measures/conclusions will be proposed about the manner of implementing the recommendations, i.e. paying the funds in the Budget.

A.3 FINANCING

Financing the projected deficit, as well as debt repayment, will be provided by foreign and domestic sources in the form of loans and issuance of government securities.

Borrowing abroad is realized through issuance of Eurobonds on the international capital market and via disbursement of funds under favorable loans from international financial institutions and credit lines intended for financing certain projects.

Borrowing on the domestic market is realized on the basis of continuous issuance of government securities, thus providing for additional financing under favorable terms and conditions. The purpose of the Ministry of Finance is developing the domestic financial market by issuing, on regular basis, treasury bills and government bonds at the primary auctions with short-, medium- and longer-term maturities depending on the market developments. Government securities are issued with domestic currency and foreign exchange (EUR) clause. Moreover, borrowing in the form of loan from domestic commercial banks can be used as a domestic instrument for financing the budget deficit.

For the purpose of more efficient development of the financial markets, with the government securities market diversification as an ultimate goal, Ministry of Finance issued development bonds for citizens for the first time. This type of financial instrument is explicitly destined for the citizens, for the purpose of mobilizing their capital in form of cash savings. On 13th July 2023, first auction for issuing development bonds for citizens was held, attended by 1,283 citizens with Denar 1,448,030,000 being paid therefor. Development bonds for citizens will contribute to boosting domestic economic growth, as well as reducing the cash in circulation, which is part of the informal economy.

At the same time, Ministry of Finance plans to introduce additional, new financial instruments.

Green bonds will be introduced for the purpose of supporting and encouraging projects aimed at promoting environmental protection. They will be used for financing green development and implementation of projects for promoting environmental protection and energy efficiency. Introduction of such instrument will provide for the development of the financial market in the medium term.

Project bonds will be alternative way of financing infrastructure-related projects. Project bonds will offer an opportunity for institutional investors to participate in infrastructure projects through listed, tradable securities that can offer superior risk-adjusted returns.

Under the modifications and amendments to the Law on Financing Local Government Units, structural bonds, stand-by loans, as well as issuance of municipal bonds, are envisaged as instruments to overcome the financial instability.

Growth Acceleration Plan

Growth Acceleration Plan 2022-2026 is a general framework, which consists of all elements that could contribute to growth potential on a medium-term basis. The Plan aims to finance the recovery of the economy affected by COVID-19 and to support accelerated and sustainable growth, while maintaining fiscal stability by mobilizing capital from the private sector in addition to the funds allocated from the budget and borrowings.

Growth Acceleration Plan will initially play a key role in boosting jobs and economic growth of North Macedonia. The ultimate goals are threefold:

Increase investments - to make more efficient use of the publicly funded investment in the amount of EUR 4 billion in the next five years by mobilizing additional investments by the private sector.

Accelerate the growth - to double the rates of medium-term economic growth to 5% annual growth

Ensure fiscal consolidation - to reduce the public debt below 60% of the country's GDP in the medium-term.

Plan suggests innovative ways to finance the investments, consume all available funds offered from official creditors and reach all the possibilities to mobilize private investments. The Plan consolidates all existing and new plans, initiatives and allocated funds of the Government of North Macedonia and international development partners for the 2021-2026 period.

It aims to improve the enabling environment, developing regulatory conditions, building capacities, putting in place standards and reducing risks. The framework presents alternative sources of financing aiming to provide greater support to the private sector, innovation and strengthening competitiveness in North Macedonia. The focus, besides the budget (both revenue and borrowings), has been put on the following types of instruments: grants, stocks, loans, concessions, public-private partnerships, etc.

Potential investors from which the financing would be collected for investment in various forms are the state and state institutions-ministries as investors through the state budget; international institutions through different types of funds - for example the European Investment Fund, Fund for Innovation and Technological Development; institutional investors; business angels, general public (citizens and diaspora), commercial banks, and others.

These sources will, inter alia, enrich the access to finance for small, medium and large enterprises (SMEs) to encourage their growth and development. The focus will be on

priority areas and potential growth areas. The intention is to develop their competitive position via digitalization, human resource development, innovation and technology, social cohesion, etc.

Plan also incorporates diverse instruments, which will provide for financing certain projects, such as: Guarantee Scheme, Energy Efficiency Fund, Fund for Local and Regional Development, Fund for research and Development, Hybrid Green and Digital Economy MSME Fund, Hybrid Strategic Green Investment Fund, Fund of Funds, Venture Capital Funds, Crowdfunding, etc. Part of the instruments have already been introduced, such as the guarantee scheme within the Development Bank, via which, the Government offers additional possibility for easier access to financial resources by credit risk sharing with the commercial banks. In addition, as per the amendments to the Law on Development Bank of North Macedonia, pending parliamentary procedure, Energy Efficiency Fund will also be established. This will provide for supporting the development via direct financing of energy efficiency investments.

Development Fund was also established within the Development Bank which will, through favorable credit products, support the export-oriented companies in research and development, in order to boost exports, technological development, and the introduction of new products. In addition, Hybrid Strategic Green Investment Fund was put into operation, all to the end of supporting investments in projects in line with the European Green Deal.

Growth acceleration - strongly supported by the Growth Acceleration Plan – is expected to bring significant benefits for the economy in the medium term.

Draft Financing Measures:

- budget users having own financing sources obliged themselves primarily use their own funds rather the budget funds for financing the day-to-day operations.
- new financing sources by introducing new debt instruments:
 - development bonds for citizens, which are issued for mobilizing the citizens' capital in the form of cash savings, thus incentivizing their investment activity, which further contributes to capital market development,
 - green bonds will be aimed at supporting and encouraging projects aimed at promoting environment protection,
 - project bonds, which will open up opportunities for alternative manner of financing debt as source of financing infrastructure projects
 - structural bonds, which will be intended for ensuring funds for financing arrears of specific municipalities.

B. SOCIAL FUNDS (PENSION AND DISABILITY INSURANCE FUND, HEALTH INSURANCE FUND AND EMPLOYMENT AGENCY)

Pension and Disability Insurance Fund of Republic of North Macedonia

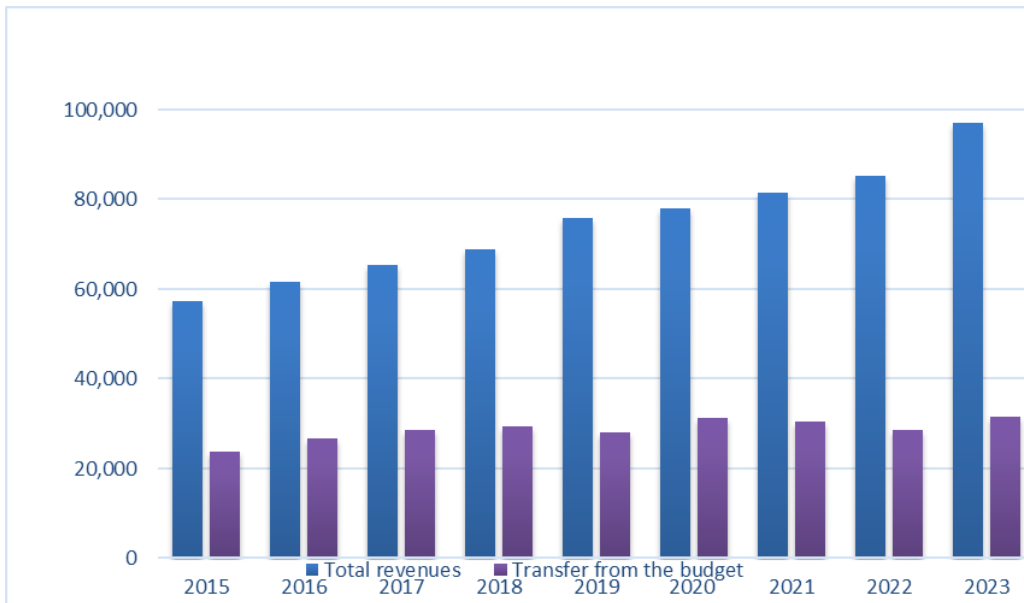
Current State of Play

Law on Pension and Disability Insurance governs the mandatory pension insurance of employees and individuals performing an activity, the bases of fully-funded pension insurance, as well as the specific requirements under which certain categories of insureds exercise the rights to pension and disability insurance. In addition to the own revenues the Fund generates and uses to finance its operations, due to shortage of funds for financing the expenditures, it is transferred funds from the central budget each year.

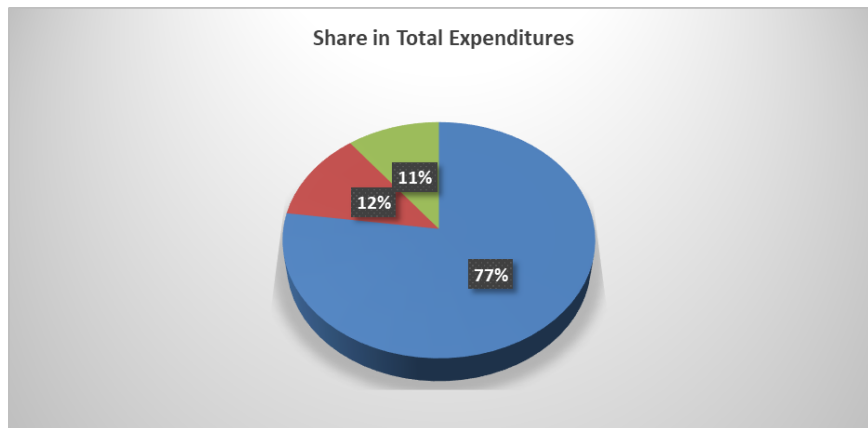
Denar million

Pension and Disability Insurance Fund									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Pension and Disability Insurance Fund									
Total revenues	57,231	61,675	65,327	68,840	75,884	77,861	81,508	85,125	97,070
Wage contributions	30,969	32,483	34,264	36,580	40,382	43,372	47,475	52,995	61,000
Transfer from the budget	23,837	26,608	28,461	29,398	28,103	31,149	30,580	28,588	31,665
Other revenues	2,425	2,584	2,602	2,862	7,399	3,340	3,453	3,542	4,405
Percentage of participation of transfers from Percentage of share of transfers from the budget in the total income	42	43	44	43	37	40	38	34	33
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Expenditures	56,784	61,489	65,156	68,548	73,121	77,392	80,146	87,607	100,748
Pensions	45,565	48,248	51,822	54,232	56,320	60,215	62,290	67,569	77,740
Transitional expenditures to private funds	4,720	6,374	6,262	7,011	8,859	8,789	9,233	10,825	12,400
Other expenditures	6,499	6,867	7,072	7,305	7,942	8,388	8,623	9,213	10,608
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Pensions beneficiaries	301,728	307,610	312,398	317,278	324,039	326,295	327,535	335,743	336,107
Average pension	13,095	13,754	13,954	14,445	14,602	15,483	15,876	17,727	19,062

Tables show the upward trend of the Fund's revenues, whereby revenues generated on the basis of wage contributions accounted for the most in the revenue structure (in 2022, they accounted for 62.2% of the total revenues, while Central Budget revenues accounted for 34% thereof). In addition, nominal growth of the transfer from the Central Budget may be noticed, thus, in 2023, it is projected to amount to Denar 31.6 billion.



Throughout the years, expenditures increased, reaching up to Denar 100.7 billion in 2023. In 2022, Denar 67.5 billion was spent for payment of pensions, thus accounting for the most thereof, with transitional costs to the second pillar, amounting to Denar 10.8 billion.



As regards the expenditure structure in 2023, pensions accounted for 77%, payments towards the second pension pillar accounted for 12%, and all other expenditures accounted for 11%.

In 2023, number of pension beneficiaries was 336,107 which, compared to 2022, increased by 364 persons, while number of pensioners increased from 301,728 persons in 2015 to 335,743 persons in 2022.

As per the amendments to the Law on Pension and Disability Insurance in 2022, the manner of pension indexation was changed i.e. old-age pension indexation is carried out as per the trends of the Consumer Price Index, accounting for 50% and the increase in the average wage paid to all employees in the Republic of North Macedonia, accounting for 50%. Pension is indexed on 1st March and 1st September every year as per the percentage

obtained as a sum of the increase in the Consumer Price Index in the previous half of the year and the percentage increase in the average wage paid to all employees in the Republic of North Macedonia in the previous half of the year in relation to the previous half thereof.

Pension Indexation Percentage

Year	2017	2018	2019	2020	2021	2022	2023
First indexation	0.82	1.69	0.7	0	1.2	2.9	8.4
Second indexation	0.76	1.8	0.4	0.6	1.2	6.8	5.3

Average Pension in the Republic of North Macedonia by Years:

Year	2016	2017	2018	2019	2020	2021	2022	2023
Average pension	13,754	13,954	14,445	14,602	15,483	15,876	17,727	19,062

Average pension demonstrates upward trend from Denar 13,754 in 2016 to Denar 17,727 in 2022. Number of retirees amounted to 335,743 in December 2021.

As regards the percentage allocated for payment of pension insurance contributions, it dropped throughout the years, i.e. from 21.2% in 2008 to 18.8% in 2020.

Percentage of contributions	Mandatory pension and disability insurance	Mandatory health insurance	Employment	Additional health insurance	Total
2008	21,2	9,2	1,6	0,5	32,5
2009	19	7,5	1,4	0,5	28,4
2010-2018	18	7,3	1,2	0,5	27
2019	18,4	7,4	1,2	0,5	27,5
2020	18,8	7,5	1,2	0,5	28

Objective: Better living standard of the retirees and ensuring sustainability

Draft Measures for Pension and Disability Insurance

- considering the opportunity to increase the percentage for pension insurance contribution,
- considering the opportunity to increase the retirement old-age limit,
- reducing the transfer from the Central Budget to the Pension and Disability Insurance.

Health Insurance Fund of Republic of North Macedonia

Current State of Play

Health Insurance Fund of Macedonia was established on the basis of the Health Insurance Law ("Official Gazette of Republic of Macedonia", nos. 25/2000, 34/2000 and 96/2000) for the purpose of implementing mandatory health insurance, as an institution performing activity of public interest and public authorizations stipulated by the respective Law.

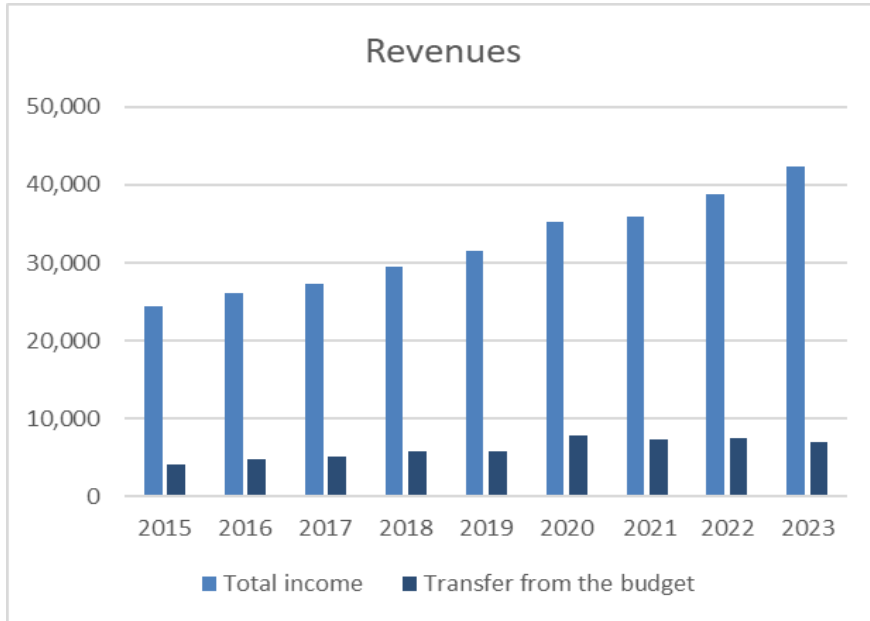
In addition to the own revenues (wage contributions) the Health Insurance Fund generates and uses to finance its operations, due to shortage of funds for financing the expenditures, it is transferred funds from the central budget each year.

Denar million

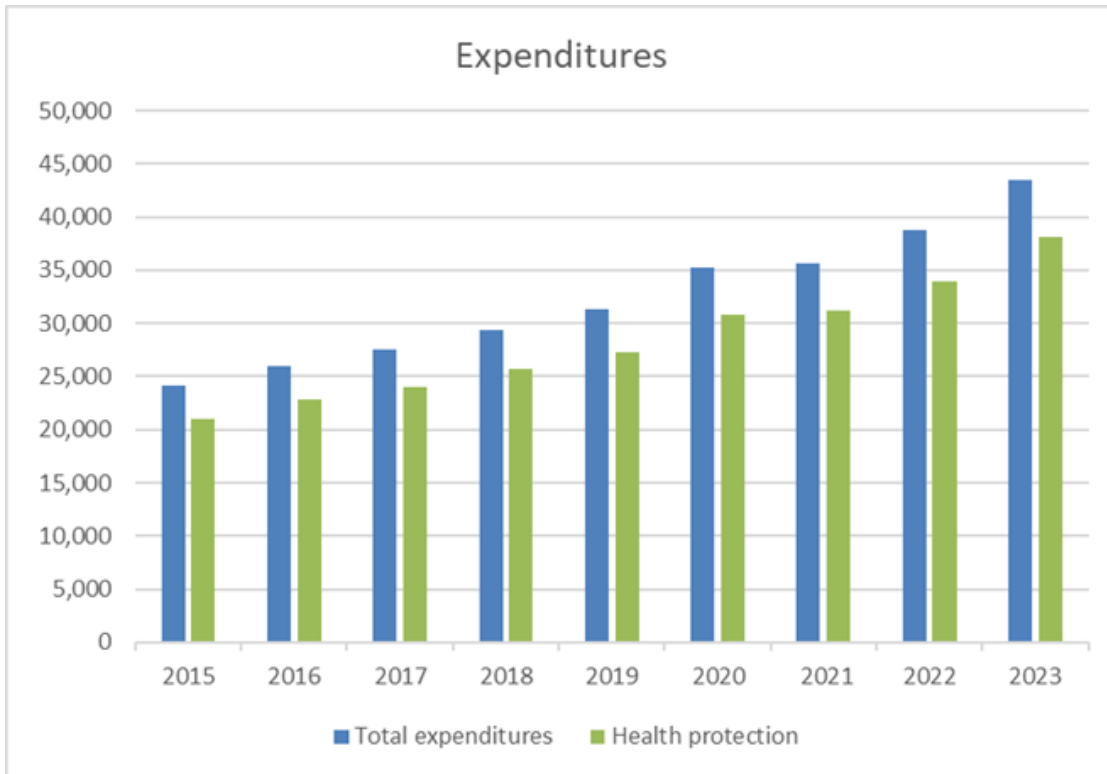
Health Insurance Fund									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total income	24,465	26,067	27,289	29,415	31,579	35,181	35,986	38,711	42,310
Revenues on the basis of contributions	13,643	14,334	15,025	16,131	17,622	18,763	19,890	21,896	24,587
Transfer from the budget	4,203	4,769	5,075	5,761	5,844	7,792	7,383	7,597	7,045
Other revenues	6,619	6,964	7,189	7,523	8,113	8,626	8,713	9,218	10,678
Percentage of share of transfers from the budget in the total income	17	18	19	20	19	22	21	20	17
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total expenditures	24,120	26,031	27,494	29,407	31,277	35,255	35,595	38,719	43,510
Health protection	21,065	22,788	24,045	25,689	27,308	30,818	31,146	33,904	38,166
Sick leave allowances	2,582	2,808	2,995	3,258	3,490	3,908	3,905	4,244	4,700
Other expenditures	473	435	454	460	479	529	544	571	644

As evident from the tables, throughout the years, revenues increased, amounting to Denar 38.7 billion in 2022, with Denar 42.3 billion projected in 2023. Funds transferred from the Central Budget showed downward trend in the recent years, amounting to Denar 7.6 billion in 2022, with Denar 7 billion projected in 2023.

Health insurance contribution wages, followed by transfers from MLSP for maternity leave (starting 2012, they are compensated on the basis of maternity leave) accounted for the most in HIF's revenue structure. As regards revenues generated on the basis of wage contributions, they also include the health contribution for unemployed persons paid by the Employment Agency of Republic of North Macedonia, health contribution for beneficiaries of social rights paid by the Ministry of Labor and Social Policy, health contribution for retired persons paid by the Pension and Disability Insurance Fund and health contribution for uninsured persons paid by the Ministry of Health.



Throughout the years, expenditures increased, amounting to Denar 38.7 billion in 2022, with Denar 43.5 billion being projected in 2023. Expenditures related to health services amounted to Denar 38.1 billion in 2023. As regards expenditure structure in 2023, expenditures related to health services accounted for 98.5%, while Fund’s operating expenditures accounted for 1.5%.



Expenditures Related to Health Services					Denar 000	
Description	Executed expenditures in 2021	2022		% of execution in relation to the projections	% 2022/2021	
		Projected	Executed			
1	2	3	4	5(4/3)	6(4/2)	
Health services	31,146,612	33,968,000	33,903,518	99.81	108.85	
Fees	3,904,974	4,240,000	4,244,553	100.11	108.70	

As regards total expenditure structure in 2022, expenditures related to health services of the insured people accounted for the most with 88.5% or totaling Denar 33,903,518 thousand. As for the annual projections, these expenditures accounted for 99.81%, while compared to the same period in 2021, they were higher by 8.85%.

Capitations

Measure the Health Insurance Fund took, which led to increased capitation point for family doctors from Denar 50 to Denar 55, being applied from 1st July 2016, with the fiscal implication as regards increase in the capitation for family doctors, amounting to Denar 188 million per year (source HIF 2016). In addition, as of October 2019, increase in the capitation amounts to Denar 8 per patient kept at the family doctor, gynecologist or dentist. Such increase accounts for 15% for doctors and 20% for dentists.

Starting January 2023, the capitation point increased for the selected general physicians and gynecologists from Denar 63.00 to Denar 75.00. As for the selected dentists, the capitation point is increased from Denar 48.00 to Denar 61, by an insured person.

Transfer to Private Health Institutions

Health services used in the private hospitals are in the field of:

- - cardiovascular surgery services,
- - ophthalmology services,
- - pediatric ophthalmology services.

Amount HIF paid to private health institutions in line with the afore-mentioned data has been increasing over the years, from Denar 7.3 billion in 2015 to Denar 9.4 billion in 2022.

Amount paid by the Health Fund to the private health institutions								Denar thousand
Year	2015	2016	2017	2018	2019	2020	2021	2022
Amount	7,320,064	7,970,805	8,332,457	8,936,680	9,243,771	9,707,448	9,102,390	9,457,950

Public Health Institutions

Total 2020 budget determined by HIF, being intended for all public health institutions amounted to over Denar 23.3 billion. Total paid expenditures of HIF in 2022 amounted to Denar 27,088,534 thousand.

	Structure in 2022				Denars 000
Expenditures	Realized expenses 2021	% of participation	Realized expenses 2022	% of participation (2022)	% 2022/2021
Basic wages and allowances	12,492,652	51.7	13,058,883	48.21	104.53
Materials and small inventory	6,664,619	27.58	7,380,695	27.25	110.74
Utilities, heating, communication and transport	1,066,383	4.41	2,129,244	7.86	199.67
Other expenditures	3,941,133	16.31	4,519,713	16.68	114.68
Total	24,164,787	100	27,088,535	100	112.10

Fund paid for wages of HIF staff increased from Denar 12.4 billion in 2021 to Denar 13 billion in 2022.

Wages of public health sector employees have recorded an upward trend. Thus, in September 2018, 19,123 employees in the public health institutions had their wage base increased by 5%, what followed in January 2019 was the increase of the wages of health workers, physicians, nurses, paramedics, technicians, 5% for nurses, 8% for nurses at clinics and 10% for medical specialists; whereby in September 2019, the health sector administration had their wage increased by 5%. By increasing the wages in February 2020 by 25% for the medical specialist and by 10% for the nurses, the cycle of wage increases in the health sector has been completed.

In 2022, wages of the health workers were increased by 5%.

In 2023, as per an Annex on modifications and amendments to the Collective Agreement for the Health Sector, complexity coefficients in order to be harmonized with the minimum wage. In addition, starting with the wage in September 2023, wages of health works were increased by 10% in line with the General Collective Agreement for the Health Sector signed this year.

The overview table shows the trends in the number of employees in the public health institutions: from 22,181 persons in 2016 to 19,412 persons in 2023.

	Number of Employees in the Public Health Institutions	Wages in the Public Health Institutions (Denar thousand)
2016	22,181	8,542,998
2017	19,986	8,793,522
2018	19,338	9,030,918
2019	19,785	10,309,651
2020	20,538	12,122,962
2021	20,790	12,492,652
2022	20,746	13,269,822
2023	19,412	13,504,500

**Arrears of the Public Health
Institutions**

	Due	Undue	Total
2015			3,171,722,000
2016			3,310,318,000
2017			3,232,753,000
2018	2,868,029,129	1,072,962,915	3,940,992,044
2019	2,726,247,074	946,263,748	3,672,510,822
2020	2,756,504,916	1,182,901,088	3,939,406,004
2021	4,186,934,665	1,817,758,965	6,004,693,630
2022	5,224,337,347	1,779,892,840	7,004,230,187
August 2023	6,092,213,636	2,182,448,650	8,274,662,286

source:
Electronic System for Reporting
and Recording of Liabilities

Given the analyses made by HIF, expenditure structure of public health institutions pertains to 48% for basic wages, 27% for procurement of materials, 7.8% for utility services, and 16% for other expenditures. As for unpaid liabilities (debts) of public health institutions, upward trend has been observed, whereby they amounted to Denar 7 billion in December 2022, being increased in 2023.

Objective: Rendering better- quality health services

Draft measures for health protection

- considering the opportunity to increase the excise duties paid on the Ministry of Health's account,
- carrying out centralized procurements of medicines in order to achieve lower costs thereof,
- developing a software for tracking the working hours in the public health institutions (duty and overtime).

C. LOCAL GOVERNMENT UNITS

Current State of Play

Revenues of Local Government Units

Municipalities in the Republic of North Macedonia are financed from own sources of revenues, revenues set under separate laws, revenues from government taxes and grants from the Budget of the Republic of North Macedonia.

Own sources of revenues are the following:

1. local taxes set by law (property tax, inheritance and gift tax, tax on sales of real estate and other local taxes set by law),
2. local fees set by law (utility fees, administrative fees and other local fees set by law),
3. local charges (landscaping of construction land, utility activities, spatial and urban plans, and other revenues stipulated by law),
4. ownership revenues (revenues on the basis of lease, interest-based revenues and revenues on the basis of property sale, which sale does not disrupt the public functions and competences of municipalities),
5. revenues from donations,
6. revenues from fines set by law,
7. self-contribution revenues, and
8. other revenues set by law.

In addition to their own revenues, the municipalities also receive one portion of the revenues from taxes collected by the state, as follows: personal income tax revenues accounting for 6% of the total collected funds, being paid into the municipal budget for which the payment was made, as well as personal income tax collected from natural persons who are engaged in craftsmanship activity, which 100% amount is paid into the municipal budget, wherein the activity is carried out. As per the latest modifications and amendments to the Law on Financing Local government Units, percentage of PIT transferred to the municipalities increases from 3% to 6%, which will start to apply as of 1st January 2024, whereby until then and percentage accounts for 4% in 2022, while accounting for 5% of the total collected funds in 2023. Municipalities are being allocated these revenues on the basis of PIT collected on the wages of individuals with permanent or temporary place of residence in the respective municipality.

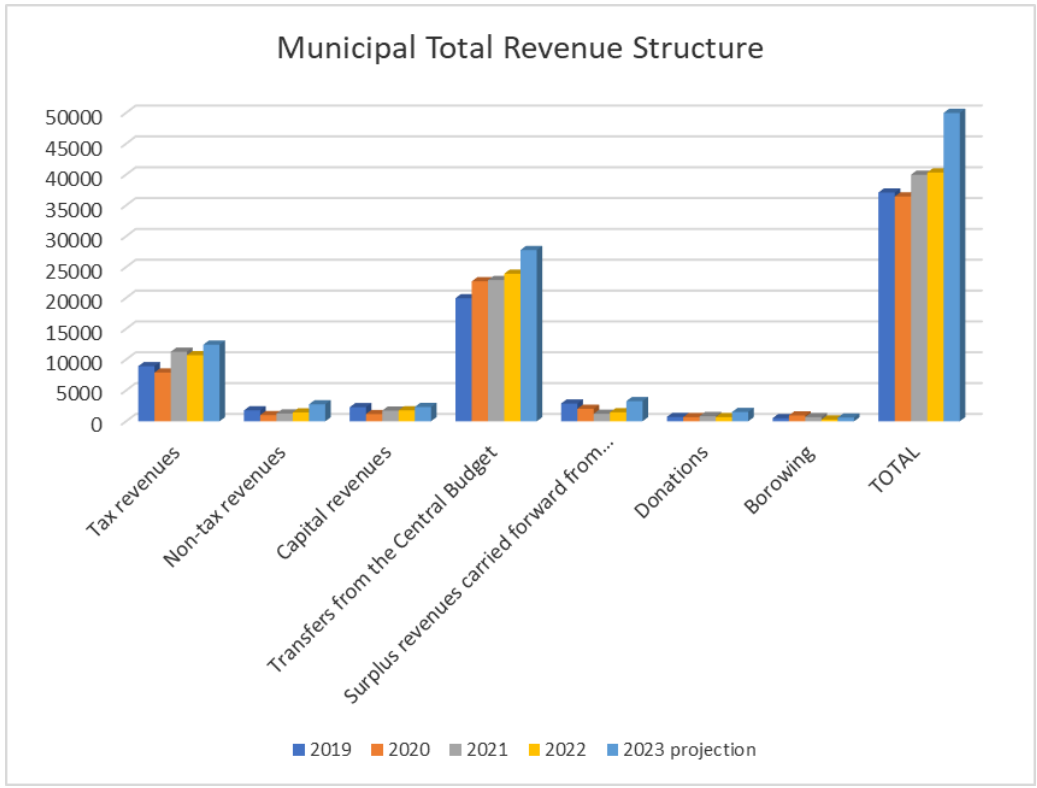
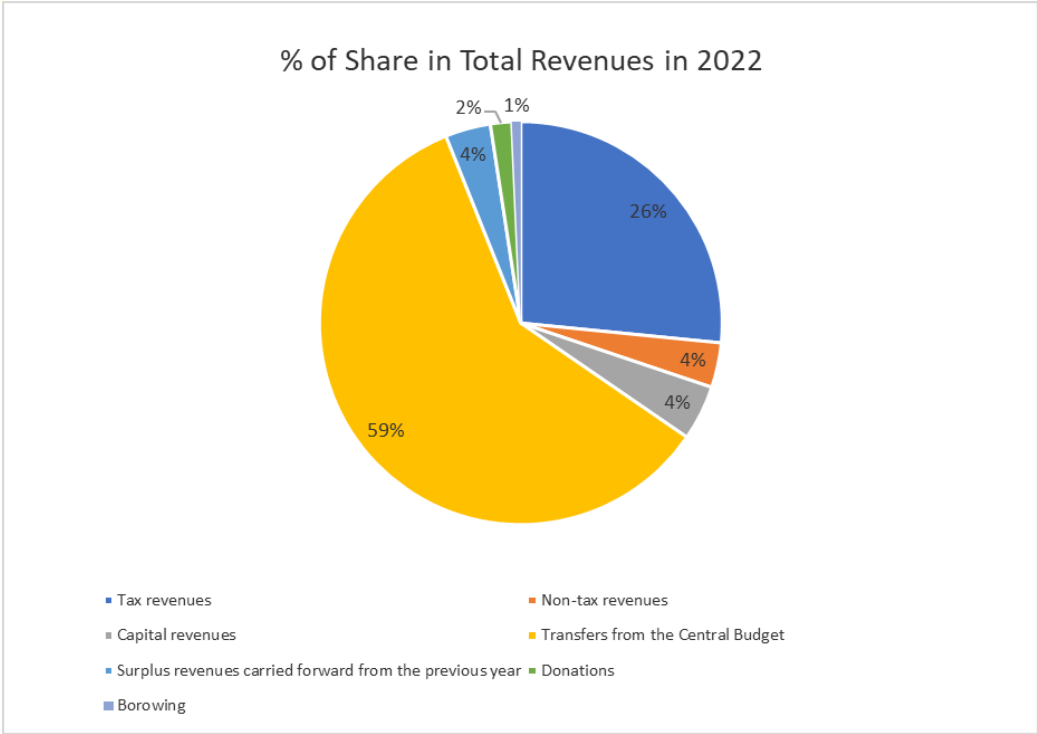
Grants transferred to the municipalities from the Budget of the Republic of North Macedonia are the following: revenues from VAT grants, earmarked grants, block grants and capital grants.

To the end of strengthening the municipal financial capacity, few legal changes were adopted in the past period, allowing for the municipalities to obtain new revenues or increase the existing own revenues such as: revenues from the sale of state-owned construction land with 20%:80% ration in favor of the municipalities, revenues on the basis of concessions for mineral raw materials with 22%:78% ratio in favor of the municipalities and additional revenues on the basis of fee for generation of energy from fossil fuels - eco-fee distributed under a Decision of the Government of the Republic of North Macedonia, revenues from water concessions for water resource use for generation of energy with 50%:50% as of 2026, revenues from the fee for using water for washing and separating sand, gravel and stone, distributed with 50%:50%, revenues from the fee for determining legal status of illegal buildings (projects of strategic interest, distributed 40%:60% for the municipalities of the City of Skopje and City of Skopje), revenues from fee for using a license for illegal building built on agricultural land with

50%:50% ratio, revenues from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the Budget of the Republic of North Macedonia and 50% for the municipalities and the municipalities in the City of Skopje, distributed as such since 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.

<i>Denar million</i>									
REVENUES OF LSGUs 2015-2023									
	2015	2016	2017	2018	2019	2020	2021	2022	2023 - plan
TOTAL REVENUES	30,132	31,025	30,845	31,685	37,089	36,455	39,970	40,336	50,680
Tax revenues	7,521	8,128	7,939	8,384	8,935	7,900	11,280	10,717	12,422
Non-tax revenues	1,572	1,386	1,316	1,471	1,776	1,009	1,280	1,448	2,765
Capital revenues	2,171	1,929	1,272	1,679	2,293	1,174	1,744	1,784	2,326
Transfers and donations	18,363	18,984	19,802	19,877	23,562	25,418	24,978	26,101	32,555
Domestic borrowing	495	580	515	274	512	954	688	286	612
Borrowing abroad	10	18	1	0	11	0	0	0	0
Sale of securities	0	0	0	0	0	0	0	0	0

As for the data on the executed expenditures of local government units in the period 2015-2022, upward trend was recorded, thus surging from Denar 30.1 billion in 2015 to Denar 40.3 billion in 2022. If we analyze the revenue structure, one can observe that transfers from the Central Government accounted for the most in the total revenues (VAT revenues, earmarked and block grants, capital grants and other transfers from the Central Government) accounting for more than 55% in the period 2015-2022, 55% in 2019 and up to 64% in 2020. In 2022, these transfers accounted for 59.3% of total revenues. This indicates great dependence of local government on the transfers, being distributed from the Central Government. Tax revenues, which are mostly revenues self-administered by the local government, account for around 24-28% of total revenues, except in 2020, when the share was reduced to 22% primarily as a result of the COVID-19 epidemic. These revenues accounted for 26.6% in 2022.



In 2022, total municipal revenues are projected at approximately Denar 47.4 billion, being **unrealistically projected**, taking into account the upward trend of revenues in the

previous years, the collection of which accounted for 85.1%. Collection of revenues from the Grant Budget accounted for the most with 95.4%, while revenues under the Donation Budget and revenues from self-financing activities were least collected (52.2%). Core Budget revenue collection accounted for 81.1%, i.e. their collection was higher by 5.5% compared to 2021 (75.6%).

Ministry of Finance concluded that the unrealistic projecting of the budgets of the local government units, i.e. the too optimistic projecting of revenues is one of the reasons due to which the local government units accrued outstanding liabilities in the previous years. As per the latest amendments to the Law on Financing Local Government Units, municipal revenues in the Core budget are projected to increase by 10% of the average of the revenues collected in the last three years. When the municipal own revenue collection accounts for 75% of the Core Budget, as of the third quarter inclusive, the revenues could be additionally increased by another 20%. This rule will be applied as of 2025, whereby in 2023, revenues are projected to increase by 20% and additional 10% upon the third quarter, followed by their 15% increase in 2024 and additional 15% upon the third quarter.

Objective: Better-quality municipal public services and ensuring better-quality municipal goods via more efficient operations of the municipalities and their sustainability.

Transfers for Transferred Competences

Recommendations as regards LGUs own revenues:

- realistic planning and projecting and higher percentage of revenue performance
- increase of the share of municipal own revenues in the total revenues,
- by taking into account the latest amendments to the Law on Property Taxes, the real estate market value is to be revised, as a property tax base, by the municipalities, the municipalities in the City of Skopje and the City of Skopje, every fourth year, all to the end of getting harmonized with the ongoing developments,
- tax rates on real estate, not being used by the owner or not being leased for a period longer than six months throughout the year, being owned by the state, the municipalities, the municipalities in the City of Skopje and the City of Skopje, as well as natural persons and legal entities, has been increased by three times in relation to the rates stipulated by law,
- property tax rates on agricultural land, which is not used for agricultural production, are increased from three to five times in relation to the base rates,
- market value amount should be the base for calculating the real estate tax, rather than the estimated value determined in the Methodology for Determining the Market Value of the Real Estate,
- timely issuance and submission of tax decisions to taxpayers,
- increased collection of property tax and utility fees, as well as revision of the tax base for real estate,
- connection and usage of data from e-cadaster for municipalities for the purpose of updating the tax base.

As regards transfers for the transferred competences in primary and secondary school, culture, childcare and elderly homes, as well as firefighting activity, continuous upward trend has been observed from Denar 14.6 billion in 2015 to Denar 22.9 billion in 2023, i.e.

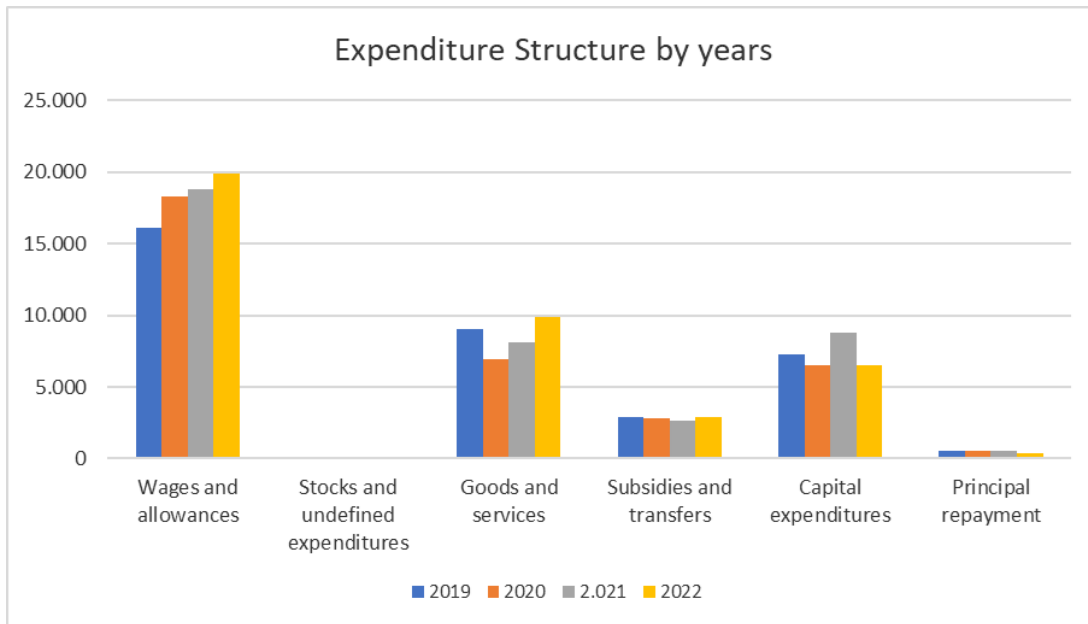
57.12% increase. Highest increase in 2022 compared to 2015 was observed at block grant for childcare by 102.8% mostly as a result of the opening of new kindergartens on one hand, coupled by adjustment, i.e. increase in the wages of the employed people in the kindergartens. Block grant intended for culture picked up by 61.7% in 2022 compared to 2015, mostly due to the increase of wages of employees in 2020, i.e. harmonization with the new collective agreement. Grants intended for primary and secondary education increased by 33.3% in 2022, as a result of the identified increase in the number of employees and the increase in the wages of employees despite the downward trend of the number of pupils. As for these block grants, it is concluded that expenditures for payment of wages and allowances participated with around 80%-90%. Earmarked grant for firefighters recorded 44% increase mostly due to the increased number of employed people and opening of new 4 territorial firefighting units, although the number of firefighters is below the legally set minimum.

<i>Denar million</i>									
Block and Earmarked Grants									
	2015	2016	2017	2018	2019	2020	2021	2022	2023 plan
Ministry of Labor and Social Policy	1,192	1,298	1,403	1,564	1,838	2,132	2,043	2,391	2,756
Child care	1,154	1,257	1,357	1,518	1,783	2,077	1,993	2,340	2,693
Elderly homes	38	41	46	46	55	55	50	51	63
Ministry of Education and Science	12,864	12,924	13,023	13,801	14,457	16,226	16,179	17,148	19,321
Primary school	8,763	8,800	8,870	9,420	9,830	11,141	11,215	11,966	13,674
Secondary education	4,098	4,121	4,150	4,378	4,624	5,082	4,961	5,179	5,643
Earmarked grant-primary school	3	3	3	3	3	3	3	3	4
Ministry of Culture	248	260	234	250	277	324	350	401	406
Ministry of Internal Affairs - firefighters	285	290	286	288	310	349	383	411	440
Total	14,589	14,772	14,946	15,903	16,882	19,031	18,955	20,351	22,923

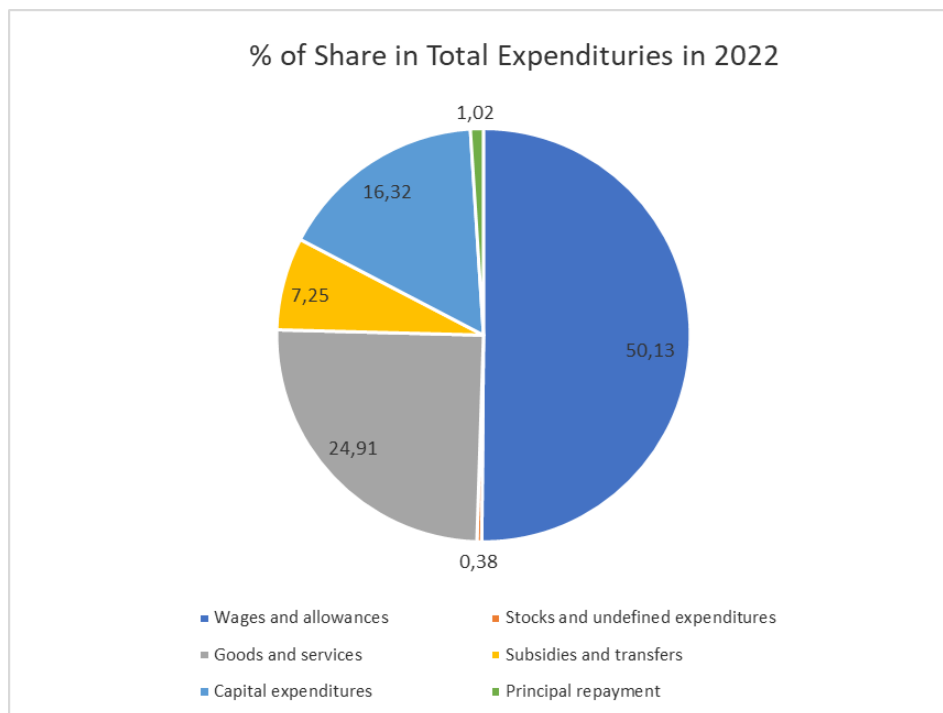
Expenditures of Local Government Units

As for the data on the executed expenditures of local government units, upward trend was recorded, by which they increased from Denar 29.2 billion in 2015 to Denar 39.7 billion in 2022.

<i>Denar million</i>									
EXPENDITURES OF LSGU 2015-2023									
	2015	2016	2017	2018	2019	2020	2021	2022	2023 - plan
TOTAL EXPENDITURES	29,251	30,314	30,419	30,361	35,983	35,221	39,059	39,698	50,680
Wages and allowances	14,400	14,640	14,727	15,034	16,134	18,334	18,847	19,900	23,304
Stocks and undefined expenditures	32	32	19	32	51	40	48	46	98
Goods and services	7,393	7,213	7,043	7,722	9,043	6,895	8,098	9,889	12,207
Interest payments	58	55	46	45	43	32	37	37	71
Subsidies and transfers	1,201	1,236	1,578	1,745	2,875	2,834	2,654	2,878	3,563
Social benefits	36	44	39	46	48	48	55	67	81
Capital expenditures	5,884	6,785	6,635	5,316	7,261	6,526	8,788	6,478	10,828
Principal repayment	247	309	332	421	528	512	532	403	528



If one analyzes the expenditure structure, it can be seen that wages and allowances accounted for the most in the total expenditures in the period 2015-2022 with 45%-52% (also including the wages of employees in the local public institutions). During the analyzed period, continuous increase was recorded, from Denar 14,400 in 2015 to Denar 19,900 million in 2022, accounting for 50.13% of the total expenditures.



According to the data by the Ministry of Information Society and Administration, what can be concluded from the Reports from the Register of Employed People in the Public Sector in the period 2015-2020, is the fact that the number of employed people in the municipal administration is kept at constant level with minor fluctuations, ranging between 5,655 and 5,751 employed people by 2022, in 2021 number of employed people increased to 6,060, whereby in 2022, number of employed people decreased to 5,832.

	2015	2016	2017	2018	2019	2020	2021	2022	August 2023
Number of employees in the municipality	5,744	5,677	5,678	5,693	5,655	5,751	6,060	5,832	5,900

Expenditures for goods and services accounted for 20%-25% of the total expenditures. i.e. amounting to Denar 7,393 million in 2015, decreasing by Denar 6,897 million in 2020 triggered by the consequences of COVID-19 pandemic, whereby in 2022, expenditures recorded an increase, amounting to Denar 9,889 million, accounting for 24.91%. Increased expenditures in 2022 is mostly due to the drastically increased prices of energy sources and electricity, resulting from the armed conflict in Ukraine.

Capital expenditures accounted for 18%-23% of total expenditures, i.e. in 2015, they amounted to Denar 5,884 million, increasing to Denar 8,789 million in 2021, while recording a drastic drop to Denar 6,478 million in 2022 compared to last year., while registering the lowest share of 16.49% of the total expenditures. Reduced capital expenditures, as well as the share in the total expenditures is a result of the reduced investment activity and reallocation of one portion of the funds for capital investments to cover the increased costs for energy sources and electricity, due to the sharp price increase.

Recommendations as regards LGUs expenditures:

- retaining the level of expenditures for payment of wages and allowances,
- considering the possibility of streamlining the existing number of employed people to the end of making maximum use of the available capacities and improving the level of rendering services to the local population,
- reducing non-productive expenditures (travel and per diem costs, entertainment costs, costs for official telephones, usage of official vehicles, and similar),
- enhancing the possibility for using renewable sources of energy, to the end of reducing the electricity costs,
- increasing the share of capital expenditures in total expenditures.

Municipal Balance

As regards the unused funds of the municipal accounts in the period 2015-2022, one can conclude that there is a tendency of a slight increase in the balance at the end of the year. As for the Core Budget, the balance continuously increased except for 2017, whereby it should be taken into account that the balance drastically increased in 2018 compared to the previous year, resulting from the funds allocated from the Central Budget, for the purpose of settling the arrears.

Grant Budget, in the period 2015-2020, had a tendency to increase, while in the period 2021-2022, decrease was recorded, which was primarily due to the legal obligation introduced in 2021, as per which the unused funds from the block and earmarked grants are returned to the Central Budget by the municipalities at the end of the year. Unused funds from the block grants in 2020, amounting to around Denar 1.9 billion compared to 2015, increased by more than 4 times, whereby the unused funds decreased by approximately Denar 760 million at the end of 2021, compared to the previous year, resulting from the legal obligation of the municipalities to return the unused funds from the block grants. In 2022, block grant balance amounted to Denar 978 million, reducing by Denar 158 million compared to the previous year.

<i>Denar million</i>								
Municipal Balance Amount By Accounts								
Type of account	2015	2016	2017	2018	2019	2020	2021	2022
Core Budget	2,215	2,477	1,911	5,821	4,478	3,276	3,305	3,856
Grants' account	443	499	658	994	1,105	1,897	1,136	978
Total	2,658	2,976	2,569	6,815	5,583	5,173	4,441	4,834

Arrears

As of September 2018 inclusive, municipal arrears under ESRRL amounted to around Denar 5 billion. In December 2019, municipal arrears amounted to Denar 3.3 billion, being reduced as a result of the financial support by the Government of the Republic of North Macedonia, amounting to Denar 3.2 billion. Municipal arrears recorded another increase by the end of 2020, amounting to Denar 3.7 billion, with upward trend being also registered at the end of 2021, when the arrears amounted to Denar 4.2 billion. At the end of 2022, municipal arrears amounted to Denar 4 billion, thus recording a slight decrease thereof. As of August 2023 inclusive, arrears amounting to Denar 3.8 billion were recorded in ESRRL, thus pointing out to their downward trend.

<i>Denar million</i>						
	2018	2019	2020	2021	2022	August 2023
Arrears	5,248	3,305	3,698	4,252	4,084	3,788

Recommendations as regards the arrears at LGUs:

- strengthening financial discipline and efficiency,
- timely servicing of due liabilities towards the creditors,
- reducing and rescheduling of debts and writing off interest,
- declaring financial instability,

- using one of the three credit instruments, to the end of overcoming the issues related to the arrears, as follows:
 - using Stand-By Credit by the Ministry of Finance,
 - issuing municipal bond for known purchaser – Ministry of Finance,
 - issuing structural bond by the Ministry of Finance.

D. PUBLIC ENTERPRISES AND STATE-OWNED COMPANIES

Current State of Play

Government of the Republic of North Macedonia founded 15 public enterprises, being a single shareholder in 15 companies, 13 out of which are state-owned joint stock companies, while 2 of them are state-owned single member limited liability companies.

In line with the legal regulations, the Government of the Republic of North Macedonia considers and gives consent, i.e. approved the acts on the financial operations of public enterprises and companies, being its founder. Thus, the Government decides upon the proposed decisions on the manner of covering the loss, i.e. the manner of distributing net profit/excess funds shown in the Annual Reports of Entities.

Thereby, pursuant to the legal regulations, as for public enterprises, the founder invests the excess funds generated from the operations of the public enterprise, in the public enterprises on the basis of detailed financial plans, while the excess funds not covered in the investment in the public enterprise in line with the approved investment program, are paid by the public enterprise in the Budget of the Republic of North Macedonia.

At the same time, in the case of state-owned companies, in accordance with the legal regulations, the decision on distribution of profit shows each separate purpose of the profit, in particular stating: the amount of profit to cover the loss of previous years - if any, the amounts entered in the legal and statutory reserves of the company, the amount to be paid in the form of dividend, the additional expenses based on the decision, the potential transfer of the profit in the upcoming years - accumulated profit and the profit amount, by which the founding capital of the company and the investment amount will be increased.

On the other hand, the decision to cover the loss sequentially shows the sources for its coverage: accumulated profit, reserve requirement, specific reserves, premiums and the founding capital of the company.

As for the analysis of the data on financial operations of these entities in the period 2015-2022, one may determine the following:

- total consolidated revenue collection amounted to Denar 39.2 billion in 2015, amounting to Denar 78.8 billion in 2022, with wages increasing, mostly as a result of the funds the Government of the Republic of North Macedonia approved for AD ESM, intended for carrying out the measures in generating additional heating energy quantities and coping with the crisis situations as regards the heating energy supply. Total consolidated revenues are projected in the amount of Denar 76.5 billion in 2023,

- total consolidated expenditures in 2015 were executed in the amount of Denar 37.7 billion, with their execution amounting to Denar 71.6 billion in 2022, i.e. they recorded growth mostly as a result of the undertaken measures aimed at managing the consequences of the energy crisis. Total consolidated expenditures are projected in the amount of Denar 78,6 billion in 2023,
- total consolidated financial performance in 2015 was positive, amounting to Denar 1.4 billion, while amounting to Denar 7.2 billion in 2022, thus indicating positive performance. Total consolidated loss is projected at Denar 2.1 billion in 2023,
- during the indicated period, the analysis showed decreasing tendency of the total average number of employed people in these entities, thus in 2015, this number amounted to 16.7 thousand, reducing to 14.1 thousand in 2022,
- total consolidated arrears in 2019 amounted to Denar 6 billion, amounting to Denar 7.4 billion in 2020, whereby they amounted to Denar 9.7 billion in 2022.

During the first eight months of 2023, the arrears amounted to Denar 9.1 billion.

Government of the Republic of North Macedonia, as founder of public enterprises and state-owned companies continuously monitors their financial operations via the annual accounts and annual reports, 3-month reports, financial plans and investment programs, under which consideration and approval, observations and remarks are provided to the competent bodies of the enterprises/the company, being geared towards reducing the non-productive expenditures, undertaking measures for collection of uncollected claims and timely settlement of the liabilities.

Above-mentioned analysis of consolidated financial data demonstrates significant increase of the arrears of these entities, at the same time indicating issues related to maintaining current liquidity and timely settlement of the liabilities at certain enterprises/state-owned companies.

Taking into account the aforementioned, and for the purpose of improving the financial status and the current liquidity of public enterprises and state-owned companies, the competent bodies need to undertake measures and activities for fiscal consolidation of these entities.

Denar million

FINANCIAL OPERATIONS OF PUBLIC ENTERPRISES AND STATE-OWNED COMPANIES 2015-2022									
	2015	2016	2017	2018	2019	2020	2021	2022	2023 (plan)
Total revenues	30,154	35,688	30,335	38,826	43,227	38,546	45,006	78,882	76,530
Total expenditures	37,739	38,089	33,338	35,036	30,995	36,604	46,042	71,288	78,628
Financial result	1,415	1,698	6,997	3,890	3,231	1,943	-1,036	7,234	-2,094
Total liabilities				1,662	5,962	7,488	11,039	9,769	9,152
Number of employees	16,774	16,713	16,227	15,731	15,410	15,696	15,417	14,306	14,553

Objective: Ensuring better quality of public services via more efficient operations of public enterprises and their sustainability.

Recommendations for public enterprises and state-owned companies

- preparing five-year financial and business plans on profitable operations and their submission to the Government of the Republic of North Macedonia and the Ministry of Finance,
- loss making public enterprises and state-owned companies not to increase the number of employed people the basis of full-time employment, i.e. to fill-in the vacancies on the basis of temporary employment upon prior approval by the Government on the necessity for new employments for the purpose of performing the main activity by the legal entity,
- loss making public enterprises and state-owned companies to increase the total costs by at least 20%,
- reducing the expenditures for contractual services by streamlining the number of engaged persons, the period of engaging and determining the amount of the fee in line with the scope and the specifics of the working tasks, whereby most of the legal services in the enterprises and the companies should be rendered by the employees themselves, owning appropriate qualifications,
- undertaking measures and activities for better collection of claims all to the end of timely financing of the liabilities and the implementation of investment activities,
- streamlining and reducing the expenditures for entertainment costs, sponsorships, advertisements, business trips and similar,
- streamlining the expenditures for procurement of furniture, equipment, and vehicles,
- rationally using the office supplies and other sundries,
- reducing the costs for leases, as well as renting premises and equipment,
- reducing the costs for procurement of vehicles to minimum, via leasing as well,
- re-examining and reducing certain allowances to minimum, prescribed by Collective Agreements as regards employers and managerial agreements.

II. PERFORMANCE INDICATORS IN IMPLEMENTING THE BUDGET POLICIES

• Budget Planning Indicators

Performance - based budgeting aims to improve the efficiency and effectiveness of public expenditures by linking the funding of the public sector to the results they deliver. Budgeting should not be viewed as an isolated initiative, but rather as part of a set of broader reforms aimed at attaining the desired results.

In its most basic form, results-based budgeting aims to ensure that the key decision and policy makers systematically take into account the results to be achieved by spending.

Results-based budgeting fits within the medium-term budget framework. The best way to improve the spending policy is to make use of the performance information. To achieve this, a concept should be applied, including clearly defined:

1. general objectives (linked with the policies),
2. specific objectives (linked with programs),
3. output, i.e. indicators (linked with sub-programs).

Objective defines the final state of what we want to achieve. As regards each policy, 1-3 general objectives should be defined. These objectives reflect what we want to achieve at macro level with the public funds intended for such policy. While setting the objectives, it is important to observe the international commitments (EU goals for examples), sectoral strategies, the Government Program and the Economic Reform Program.

Impact indicators (policy area) – indicators for measuring long-term effects and they generally measure the impact of a set of measures. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

Specific objectives of the programs support the general objectives of the respective policy. With respect to each program, it is necessary to define 1-3 specific objectives.

Outcome indicators (program level) – indicators for measuring medium-term or long-term effects of specific government measures and projects, which are presented as broader socio-economic consequences at program level. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

There should be 1-3 objectives as expected results (indicators) under each sub-program. The indicator gives thorough description of what we want to achieve over a certain time period, displaying the expected results as values. They are the basis for measuring and monitoring the SMART objectives. While setting them, different types of indicators may be used, depending on the level of detail of the objective. Objectives should have at least one indicators so as to be measured and monitored by:

Input indicator is the total sum of spent budget for a precise objective

Output indicator (sub-program level) - indicator used when measuring specific outputs (direct effects of measures or projects), supporting the realization of the specific objectives. Target value of these indicators is determined yearly or for the period covered by the medium-term strategies.

Criteria for Good Indicators

Indicators are chosen based on the following criteria (in line with OECD):

- the indicator should be connected to one or more objectives,
- the indicators should be connected between themselves in the hierarchy - bottom up logic to be followed,
- the indicators should be in line with the existing strategies, particularly on the higher level,
- the indicators should be measurable, easy to understand and transparent,
- the indicators should be easily available. If there is no historical data, the indicators should be first created and tested, and into use later in the future,
- the indicator data should be published at least once per year, or with other set timetable,
- budget users should be able to control the objective and create the indicators, so as for their follow-up, reporting and evaluating to be enabled thereto later on.

Proposals for objectives and indicators in the field of environment, transport and justice

Environment and climate change	
GO1: Environment protection and promotion	
I1:	Average air temperature
I2:	Land covered by forest
SO 1.1.: Greater availability to clean drinking water, wastewater treatment and clean air	
I1:	Households connected to water supply network
I2:	Land covered by sewage network
I3:	Number of days exceeding the PM10 threshold
SO 1.2: Nature protection and biodiversity	
I1:	Land covered by NATURA 2000 protected areas
I2:	Endangered types of plants and animals
SO 1.3: Sustainable space planning	
I1:	Coverage of Republic of North Macedonia with spatial and urban plans
I2:	Time period necessary for issuing building permits
GO2: More efficient of resources and reduced CO2 emissions	
I1:	Economy energy efficiency
I2:	Greenhouse gas emissions (CO2)
SO2.1: Reduced pollution and increased quantities of collected waste	
I1:	Quantity of produced/collected and/or treated waste
GO3: Protection of human health against environment-related risks	
I1:	Expected life expectancy

Transport	
GO1: Better and more efficient transport	
I1:	Value added index in the transport sector
SO 1.1: Improved and faster mobility of road traffic	
I1:	Road freight transport
SO 1.2: Improved and faster mobility of rail traffic	
I1:	Rail freight transport
SO 1.3: Better air traffic	
I1:	Number of airline passengers
I2:	Quantity of goods and package in air transport
GO 2: Sustainable mobility of goods and people	
I1:	CO2 emissions from transport
SO 2.1: "Green transport" (sustainable mobility)	
I1:	Reduced number of passenger vehicles to 1000 residents
I2:	Increased number of rail transport passengers
GO3: Increased transport safety	
I1:	Number of injured and killed people in traffic

Legend:

GO	General objective
SO	Specific objective
and	Indicator

- **Fiscal Consolidation Indicators (Spending Standards)**

This analysis is aimed at streamlining the costs incurred by budget users for the purpose of their regular functioning by setting certain standards, by also taking into account their specificity. When setting the spending standards for budget users, data have been taken into account, pertaining to executed expenditures linked to the functioning of the institutions as regards the number of employed people.

Tables on average costs by budget users with respect to the expenditures are given below, those being the following: travel costs, utility services, materials and sundries, repairs and current maintenance, contractual services and other current expenditures.

FORM FOR INPUT INDICATORS FOR CURRENT EXPENDITURES										
NAME OF BUDGET USER		2020	2021	2022	2023	2024	2025	2026	2027	2028
Number	Indicator									
1	Number of full-time employees									
2	Number of part-time employees									
3	Average monthly gross wage for employees (on full-time and part-time basis)									
4	Number of temporary employees									
5	Costs for temporary employees									
6	Number of persons engaged under contractual agreement									
7	Number of persons engaged under temporary employment contract									
8	Costs for contractual engagement of people (contractual agreement and temporary employment contract)									
9	Operating expenditures per employee (expenditures for goods and services/number of employees)									
10	Entertainment costs per employee (full-time and part-time)									
11	Costs for telephone services per employee (full-time and part-time)									
12	Office premises per employee (full-time and part-time)									
13	Office supplies per employee (full-time and part-time)									
14	Number of vehicles									
15	Fuels and costs for maintenance of vehicles									
16	Percentage of arrears in relation to total budget									