



**REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE**

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

JANUARY – JUNE 2024

Skopje, July 2024

CONTENTS

Summary.....	2
1. International Economic Trends	3
2. Macroeconomic Trends in the Country	4
2.1. Economic Activity	4
2.2. Labour Market	7
2.3. Inflation and Monetary Trends.....	7
2.4. Balance of Payments	8
3. Fiscal Sector	9
3.1 Budget of the Republic of North Macedonia.....	9
3.1.1 Execution of the Core Budget.....	11
3.1.2 Funds' Budget Execution.....	13
3.1.3 Budget Execution regarding Self-Revenue Accounts of Budget Users	14
3.1.4 Budget Execution by Budget User.....	14
3.2. Public Debt Management.....	16

Summary

- During Q1 2023, gross domestic product (GDP) grew by 1.2% in real terms, with domestic demand having positive contribution to the economic growth amid scaled-up gross investment and consumption, while net export had a negative contribution;
- As per the Labour Force Survey, unemployment declined in the first quarter of 2024, with the unemployment rate reaching 12.9%, decreasing by 0.4 p.p. compared to the same quarter last year.
- In the course of the first half of 2024, inflation pursued its slowed down trend, reaching 3.2% in June 2024 on annual basis. In cumulative terms, average inflation rate accounted for 3.7% in the first six months.
- Total budget revenues were collected in the amount of Denar 144,304 million in the period January – June 2024, accounting for 46.5% of the amount projected for 2024, increasing by 9.9% compared to the first half of 2023;
- Total budget expenditures were executed in the amount of Denar 168,162 billion in the period January – June 2024, accounting for 48.9% of the annual projections, increasing by 8.5% compared to the first half of the previous year;
- In the period January – June 2024, state budget deficit amounted to Denar 23,858 million, accounting for 2.64% of the GDP projected for 2024, and a primary deficit of 1.4% of the GDP projected for 2024;
- At the end of the first quarter of 2024, government debt of the Republic of North Macedonia accounted for 51.5% of GDP, while public debt accounted for 59.8% of GDP.

1. International Economic Trends¹

At the beginning of 2024, global economy showed resilience, underpinned by the strong private consumption in the major economies, with a stable growth, while inflation gradually declined. Services price inflation is holding up progress on disinflation, which is complicating monetary policy normalization. On the other hand, normalization of the labour markets and the expected decline of energy prices are expected to stabilize inflation. Still, despite the turbulent period, the world avoided a recession, the banking system proved largely resilient, and the major emerging market economies did not suffer substantial shocks, although the pace of economic expansion is low by historic standards.

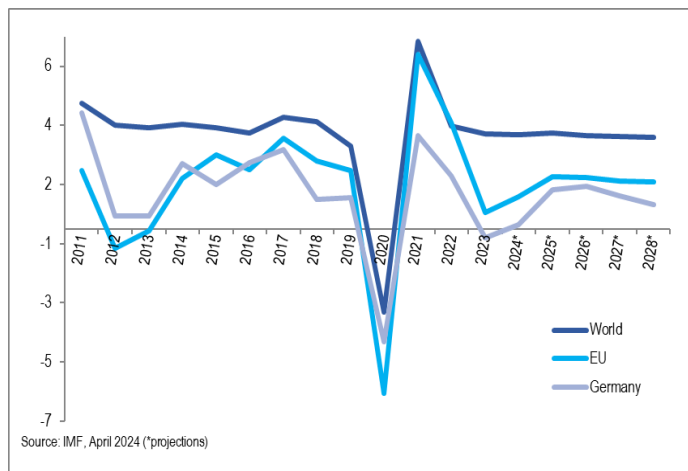
Policymakers face two challenges: further price stabilization and managing the effects of the recent crises. On the short run, it implies carefully designed mix of policies.

Global growth is projected at 3.2% in 2024, according to IMF projections from April 2024, at the same pace as in 2023. Although the projection is revised up by 0.3 p.p. with respect to the October 2023 WEO forecast, global growth is still expected to be lower compared to the pre-pandemic period, owing to both near-term factors, such as still-high borrowing costs and withdrawal of fiscal support, and longer-term effects from the COVID-19 pandemic and the Russia's invasion of Ukraine, weak growth in productivity and increasing geoeconomic fragmentation. (Chart 1)

Growth in the EU and the euro area is projected to be 1.1% and 0.8% respectively in 2024, that is 0.4 p.p. lower than the forecast made at the time of the October WEO. Germany, as our major trading partner, is expected to register growth of 0.2% in 2024, being a decline by 0.7% compared to the previous expectations.

Global inflation is expected to fall from 6.7% in 2023 to 5.9% in 2024, declining to 2.4% in 2024 in the euro zone from 5.4% in 2023. Inflation projections are based on expectations for food commodity prices declining on the stock markets, oil and energy prices falling, and lower core inflation due to the still tightened financial conditions.

Chart 1. Real GDP growth (%)



In general, risks to global growth outlook are balanced, except for certain short-term risks. Short-term risks are related to inflation, stemming from both the continuous price spikes in the services sector and the price pressures, arising, on the other hand, from deterioration of the trade relations or geopolitical tensions. Escalation of trade tensions could additionally heighten the short-term risks to inflation by increasing the prices of imported goods in the supply chains. Risk of higher inflation increases the possibility for higher interest rates on the long run, leading to heightened external, fiscal and financial risks. In addition, risks also stem from the dollar appreciation which could deteriorate the capital flow and hinder the planned monetary policy easing, as well as

¹ Analysis of this part is based upon the International Monetary Fund Report "World Economic Outlook", published in April 2024.

the expectations for substantial changes in the economic policy as a result of the US elections taking place this year which, coupled with the encouraging industrial policies worldwide, could generate adverse cross-border spillovers.

On the other hand, policies promoting multilateralism, stronger macro-structural reforms and artificial intelligence could spur supply, productivity and growth, with positive spillovers worldwide.

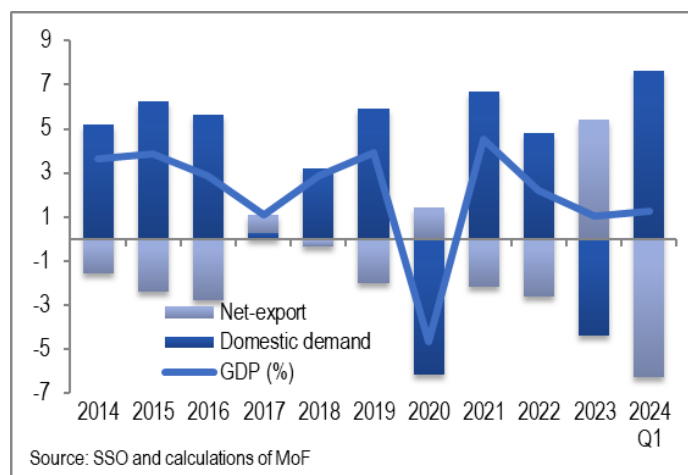
2. Macroeconomic Trends in the Country²

2.1. Economic Activity

During Q1 2024, gross domestic product (GDP) grew by 1.2% in real terms, with domestic demand having positive contribution to the economic growth amid scaled-up gross investment and consumption, while net export had a negative contribution.

Consumption registered 2.1% growth in real terms, as a result of the growth of both private consumption and public consumption. Private consumption experienced 2.0% growth in real terms as a result, above all, of the increase of household disposable income, amid more intensive wage rise in Q1 2024 (real growth of 12.5%), growth of pensions and credits to households. Public consumption grew by 2.4% in real terms. Gross investments recorded double-digit growth of 23.6% in Q1, recovering substantially following the negative performance in 2023, amid higher import of capital goods (nominal growth of 34.6%) and higher execution of capital expenditures (nominal growth of 31.7%).

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



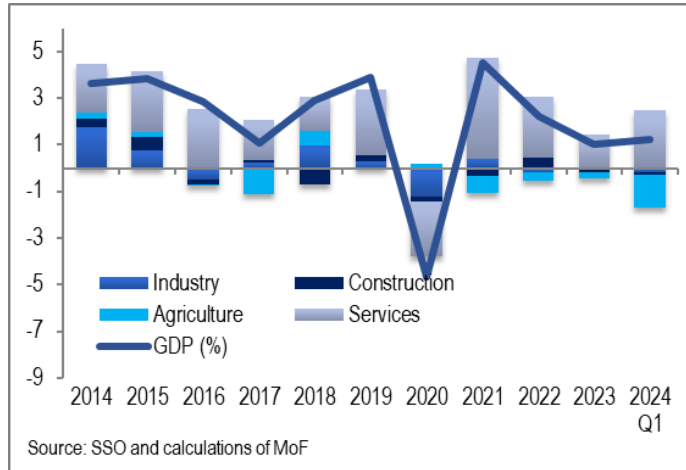
Weak economic activity in the EU countries and, respectively weak external demand, resulted in decline of export of goods and services by 7.8% in real terms. Export drop was primarily a reflection of the declined export of chemical materials and products, electricity, road vehicles and metal ore and metal scrap. On the other hand, import of goods and services grew by 0.2% in real terms, driven by the import of capital goods, which increased by 34.6%, while decline of the import of intermediary goods slowed down amid reduced import in the respective quarter. Hence, net export had negative contribution to the economic growth. During the first five months in 2024, foreign trade declined by 3.3% as a result of the import of goods dropping by 8.8%, with import increasing by 1.0%, which contributed to increased trade deficit by 34.1%.

Analyzed by activity, economic growth in Q1 2024 was merely a result of the positive performance at the services sector. Activity in the services sector, as a whole, picked up by 4.1% in Q1, above all as a result of the favourable trends in the activities Art, entertainment and recreation by 19.6%, Professional, scientific and technical activity by 7.5% and Trade, transport and hospitality industry by 6.9%. High-frequency data on

² Latest available data are used in the Report. Data on GDP, unemployment and balance of payments are available as of the first quarter of 2024 inclusive.

domestic trade showed nominal growth of sales of 4.2% in the period January - May 2024, stemming from the favourable trends in all segments of trading.

Chart 3. Economic Growth Structure According to Production Method (contribution to growth, percentage points)

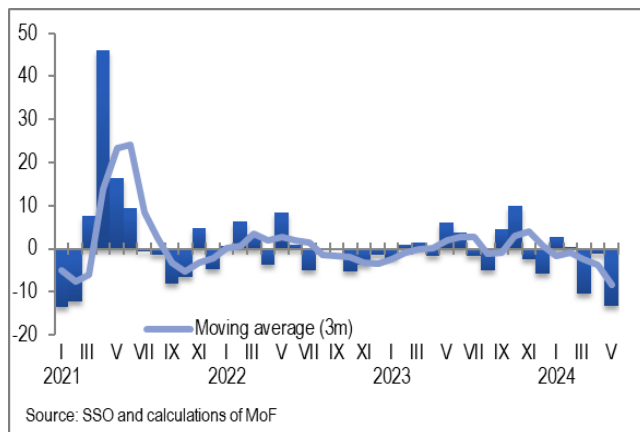


During the first quarter, construction activity recorded a decline of 2.5%, which, as per the monthly data for completed construction works, was due to the decline of construction activity as regards buildings and specialized construction works, while activity in civil engineering structures experienced an increase. Agriculture registered twofold decline of 19.7% during this period, following the 15.3% drop in the previous quarter, by which negative performance in this sector continued

Throughout the first quarter, activity in the industrial sector dropped by 1.2%, wherein activity in Manufacturing decreased by 0.3%. According to high-frequency data, in Q1 2024, decline of 24.5% and 2.3% was recorded at the sectors Electricity, gas, steam and air-conditioning and Mining and quarrying respectively.

In line with the monthly data, industrial production registered a decline, experiencing annual 13.2% decline in May 2024, as a result of the declined production in all sectors, as follows: Mining and quarrying by 17.1%, Manufacturing by 10.6% and Energy sector by 18.4%. Decline in industrial production, accounting for 4.9% in the first five months of 2024, was mostly a result of decreased production at the traditional industrial branches, such as manufacture of tobacco goods, leather, wearing apparel and manufacture of wood, as well as manufacture of computer, electronic and optical products. Manufacture of electricity experience 26.7% decline in the period January - May 2024 as a result of the high comparative basis the previous year with a cumulative growth of 13.0%, owing to the measures aimed at supporting the overall utilization of domestic capacities for electricity generation.

Chart 4. Annual Growth of Industrial Production (%)



Economic growth forecast has been revised downward to 2.1% this year as opposed to the previously projected 3.4% in December 2023, conditioned by the weaker than expected performance in 2023, data on economic trends in the first half of 2024 and the economic trends in 2024. Growth is expected to be driven by the domestic demand, while net export is expected to have a negative contribution to growth.

Private consumption is still expected to be one of the main drivers of growth, underpinned by growth of disposable income and solid credit activity of the banking system. Disposable income is supported by the high growth of wages in real terms, as well as the linear increase of pensions which will encourage consumption in the coming period. Hence, private consumption is expected to surge by 2.7% in real terms.

Gross investments are expected to pick up by 10.0%, mainly as a result of the low comparative basis, i.e. 16.7% drop in 2023. They are expected to be driven by scaled-up investments in fixed assets, i.e. machinery and equipment, and inventories returning to normal during the year. More efficient implementation of both already commenced infrastructure projects during the remainder of this year and the local infrastructure projects are expected to respectively contribute thereto.

Public consumption is expected to increase by 3.3% amid increased wage-related expenditures, stemming from the need to adjust wages with the prior signed collective agreements, coupled with cutting the non-productive expenditures for goods and services.

Export of goods and services is expected to recover in the coming period (following its decline in 2023) as a result of the slightly more favourable growth prospects at the major trading partners. Export activity is expected to be underpinned by the favourable effects of the price of metals on the traditional export sector, continued good performance of the companies in the automotive industry, as well as the future investments in increasing the capacities in the free industrial zones. Hence, export is expected to grow by 2.5%.

Export growth, as well as increased domestic demand and investments, are also expected to intensify the import of goods and services (partially as a result of the higher decline of 5.8% in 2023), growing by 5.4%, with total contribution of net export to be negative.

Inflation rate is forecasted at 3.5% in 2024, a significant slowdown of the price trends compared to 2023. During the second half of 2024, inflation is expected to pursue its slowdown trend, i.e. prices of food and energy are expected to stabilize, and the pressure from the core inflation to be more moderate.

Favourable trends on the labour market are expected to continue in the coming period as well, with a slightly more moderate dynamics in relation to the previous projections. Number of employees is expected to increase by around 1%, with the unemployment rate dropping to 12.6% in average in 2024. As regards average net wage, high increase will resume throughout 2024, being projected at 13% in average, against the background of increased wages in certain public sectors and the ones in some high-productivity activities.

Baseline macroeconomic scenario is accompanied by risks, mainly assessed as downside ones, in relation to the projected economic growth. Risks related to the external environment remain to be associated with geopolitical tensions, i.e. the war conflict in Ukraine and the conflict in the Middle East. Further deepening of geoeconomic fragmentation, with higher barriers to the flow of goods, capital and people, would have unfavourable effects on the supply chains and the stock market prices, also affecting trade and external environment. Risks to inflation forecasts are related to commodities price trends, i.e. their increase due to geopolitical factors and disrupted supply chains, as well as domestic risks related to the labour market and price regulation. With respect to the domestic environment, further postponing of the implementation of the envisaged infrastructure projects poses a major risk.

Table 1. Comparison of Economic Growth and Inflation Forecasts for 2024 (%)

	Economic Growth	Inflation
Ministry of Finance	2.1%	3.5%
IMF	2.7	4.0
World Bank	2.5	3.0
European Commission	2.9	3.0
EBRD	2.5	/
Fitch Ratings	2.9	3.7
National Bank of RNM	2.6	3.5

Source: MoF projections, IMF (World Economic Outlook, April 2024), World Bank (Western Balkans Regular Economic Report, April 2024), European Commission (European Economic Forecast, May 2024), EBRD (Regional Economic Prospects, May 2024), Fitch Ratings (April 2024), National Bank of RNM (Quarterly Report, May 2024).

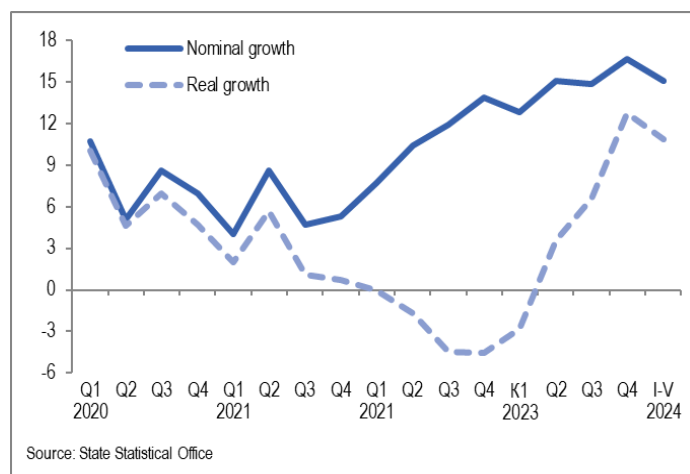
2.2. Labour Market

As per the Labour Force Survey, unemployment declined in the first quarter of 2024, with the unemployment rate reaching 12.9%, decreasing by 0.4 p.p. compared to the same quarter last year.

During Q1 2024, employment rate accounted for 45.4%, being higher by 0.3 p.p. compared to the same quarter in 2023, while active population comprised 52.1% of the total working-age population, increasing by 0.1 p.p. compared to the same quarter in 2023.

In the course of the first five months in 2024, wages recorded average growth of 13.1% in nominal terms (Chart 5). During this period, average wage increase was recorded in all sectors, whereby most evident growth was seen in the field of Education, Art, entertainment and recreation, Public administration and defence, Water supply, Agriculture, Electricity supply and Manufacturing.

Chart 5. Average Net Wage Growth (%)



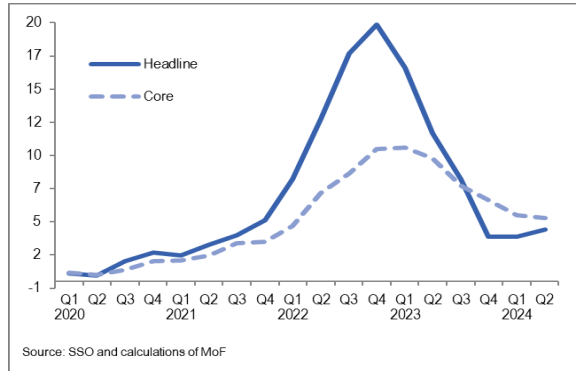
2.3. Inflation and Monetary Trends

In the course of the first half of 2024, inflation pursued its slowed down trend, reaching 3.2% in June 2024 on annual basis. In cumulative terms, average inflation rate accounted for 3.7% in the first six months.

In the first half of 2024, inflation was mostly a result of the core component, which registered slower decrease of prices, i.e. core inflation accounted for 4.9% in the first half of 2024. Food prices at the end of Q1

registered accelerated growth, due to the increase of prices of vegetables and fruit, as well as the expiry of the measures aimed at reducing the retail prices. Such trends continued by May 2024, with the food prices declining in June on annual basis. Cumulatively, food prices increased by 3.0% in the first six months, with their contribution to headline inflation dropping. In the period January - June 2024, prices of energy and oil derivatives grew by 2.7% and 0.7% respectively, being in line with the trends on global stock markets.

Chart 6. Headline and Core Inflation (%)



In keeping with the need to stabilize inflation and inflationary expectation on longer term, National Bank kept its policy rate at 6.3% in the course of June 2024 as well, remaining unchanged since November 2023.

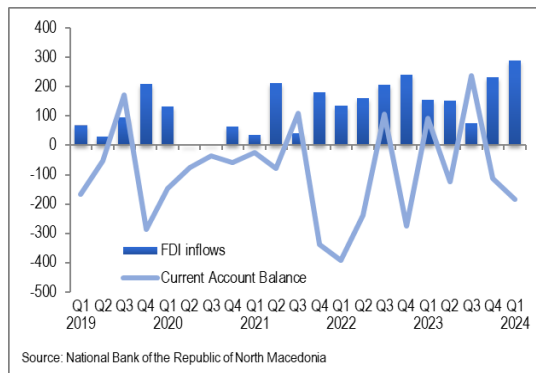
On annual basis, credit activity grew by 6.4% in June 2024, amid growth of both credits to enterprises and credits to households by 5.8% and 7.1% respectively. Denar credits surged by 11.7%, while foreign currency credits dropped by 0.4%.

Total deposit potential in June 2024 grew by 7.2% on annual basis against the background of increased deposits of enterprises and deposits of households by 4.7% and 8.9% respectively. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 9.9% and 3.9% respectively on annual basis.

2.4. Balance of Payments

Balance of payments current account recorded deficit in the amount of EUR 185.0 million in Q1 2024, compared to the surplus amounting to EUR 92.8 million in the same period last year, mostly due to the increased deficit on the service account (35.1%) and the primary income account (4.4%), as well as the reduced surplus on the secondary income account by 17.2%. Increased surplus on the service account by 19.2% had a positive effect. Inflow of foreign direct investments (FDIs) amounted to EUR 290.2 million and, compared to the same period last year, it increased by EUR 134.1 million, due to the higher inflow on the basis of equity and debt instruments.

Chart 7. Current Account Balance and FDIs Inflow (EUR million)



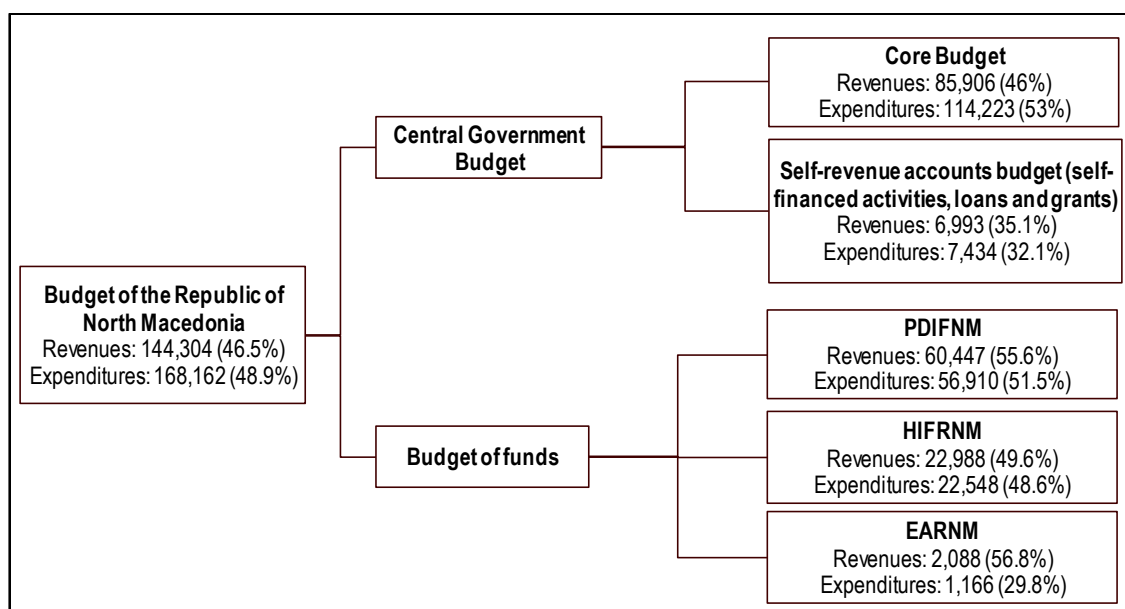
Reserve assets amounted to EUR 4.3 billion in June 2024, providing for 4.4-month coverage of import of goods and services in the previous 12-month period, being at an adequate level.

3. Fiscal Sector

3.1 Budget of the Republic of North Macedonia

Under 2024 Budget of the Republic of North Macedonia, total revenues and total expenditures are projected in the amount of Denar 310,097 million and Denar 343,638 million respectively, i.e. deficit is projected in the amount of Denar 33,541 million (Core Budget deficit amounting to Denar 28,318 million, Funds' deficit amounting to Denar 2,004 million and self-revenue accounts deficit amounting to Denar 3,219 million).

Chart 8. Scheme of the Budget of RNM - performance (Denar million) and execution rate (%) in the first half of 2024



Total budget revenues were collected in the amount of Denar 144,304 million, accounting for 46.5% of the projected amount for 2024, being an increase by 9.9% compared to the budget revenues collected in the same period in 2023 (Table 2). As regards total revenues, Denar 133,952 million was collected on the basis of tax revenues and social contributions, with the execution rate accounting for 48% of the amount projected for 2024, being 14.4% increase in relation to the previous year. Thereby, tax revenues were collected in the total amount of Denar 82,895 million³ (i.e. 47% of the amount projected for 2024), while social contributions were collected in the amount of Denar 50,195 million (annual increase of 14.4%, i.e. 49.7% of the amount projected for 2024). As regards tax revenues, increased collection was recorded at all taxes, as follows: other tax revenues increasing by 54.1%, profit tax revenues surging by 23.1%, personal income tax revenues picking up by 17.8%, followed by increase in import duties collection by 14.7%, with VAT and excise duties collection growing by 13.5% and 3.8% respectively.

Total budget expenditures were executed in the amount of Denar 168,162 million in the period January – June 2024, accounting for 49.0% of the annual projections, i.e. increase of 8.5% compared to the first half of 2023. Thereby, current expenditures were executed in the amount of Denar 155,232 million, i.e. 52.0% of the amount projected for the whole year, being an increase of 16.8% compared to the same period in 2023. Increase was registered at interest payments of 67.8%, expenditures related to goods and services of 8.6% and expenditures related to wages and allowances of 22.7%. Transfers, as the largest category of current

³ Self-revenue accounts amounting to Denar 862 million are also included.

expenditures, increased by 13.2%, driven by the high growth of social transfers by 15.9%, healthcare-related expenditures by 14.2%, block and earmarked grants by 11.7% and subsidies and transfers by 3.8%. Capital expenditures were executed in the amount of Denar 12,930 million, being lower by 41.0% compared to the same period in 2023. Execution rate of capital expenditures accounted for 28.6% in the first half compared to the initially adopted Budget.

Table 2. Budget Execution for the period January – June 2024

	Budget 2024	January - June 2024		
	in denar million	in denar million	yearly growth rate	execution rate
TOTAL REVENUES	310,097	144,304	9.9%	46.5%
Taxes and Contributions	279,044	133,952	14.4%	48.0%
Taxes	178,067	82,895	14.2%	47.0%
Personal Income Tax	31,116	14,733	17.8%	47.3%
Profit Tax	19,483	11,960	23.1%	61.4%
VAT	80,698	36,147	13.5%	44.8%
Excises	30,969	13,447	3.8%	43.4%
Import Duties	12,124	6,084	14.7%	50.2%
Other Taxes	3,677	1,299	54.1%	47.5%
Contributions	100,977	50,195	14.4%	49.7%
Non Tax Revenues	20,394	8,810	13.2%	43.2%
Capital Revenues	3,210	346	-9.7%	10.8%
Foreign Donations	7,449	1,196	-79.9%	16.1%
Revenues from repayment of loans	0	0	/	/
TOTAL EXPENDITURES	343,638	168,162	8.5%	48.9%
Current Expenditures	298,459	155,232	16.8%	52.0%
Wages and Allowances	41,178	21,065	22.7%	51.2%
Goods and Services	25,113	10,306	8.6%	41.0%
Transfers	215,358	112,639	13.2%	52.3%
Social Transfers	161,842	82,611	15.9%	51.0%
Pensions Fund	98,995	52,066	18.1%	52.6%
Unemployment Benefits	3,026	836	11.3%	27.6%
Social Benefits	14,089	7,448	5.7%	52.9%
Health Care	45,732	22,261	14.2%	48.7%
Other Transfers	53,516	30,028	7.5%	56.1%
Interest	16,810	11,052	67.8%	66.8%
Capital Expenditures	45,179	12,930	-41.0%	28.6%
BUDGET BALANCE	-33,541	-23,858	0.8%	71.13%

Source: Ministry of Finance

In the period January – June 2024, budget deficit amounted to Denar 23,858 million, accounting for 2.64% of 2024 projected GDP, i.e. 71.13% of the annual projections (Table 2).

Within the Budget of the Republic of North Macedonia, Core Budget deficit amounted to Denar 28,318 million, surplus of the Funds amounted to Denar 4,900 million, and deficit on the self-revenue accounts amounted to Denar 441 million.

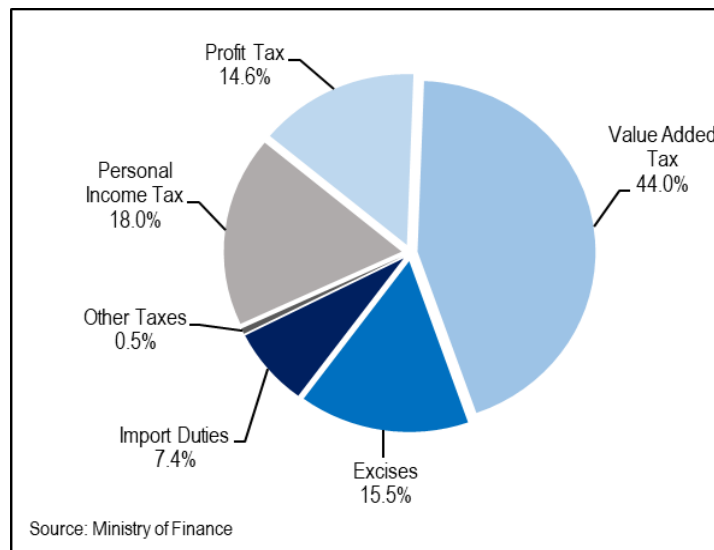
3.1.1 Execution of the Core Budget

Total Core Budget revenue collection amounted to Denar 85,819 million in the period January – June 2024, accounting for 46.0% of the total revenues projected for 2024 in the amount of Denar 186,742 million.

Tax revenues, being the highest revenue item within the total revenues, were collected in the amount of Denar 82,060 million, i.e. 47.2% of the annual projections, while non-tax and capital revenues were collected in the amount of Denar 3,759 million or 32.8% of the revenues projected for the whole year.

Structure of collected tax revenues showed that VAT revenues accounted for the most with Denar 36,147 million or 44.8% of the total tax revenues (Chart 9), followed by revenues on the basis of PIT collected in the amount of Denar 14,733 million, revenues on the basis of excise duties in the amount of Denar 12,699 million, profit tax revenues collected in the amount of Denar 11,960 million, revenues on the basis of import duties in the amount of Denar 6,084 million and other tax revenues in the amount of Denar 437 million.

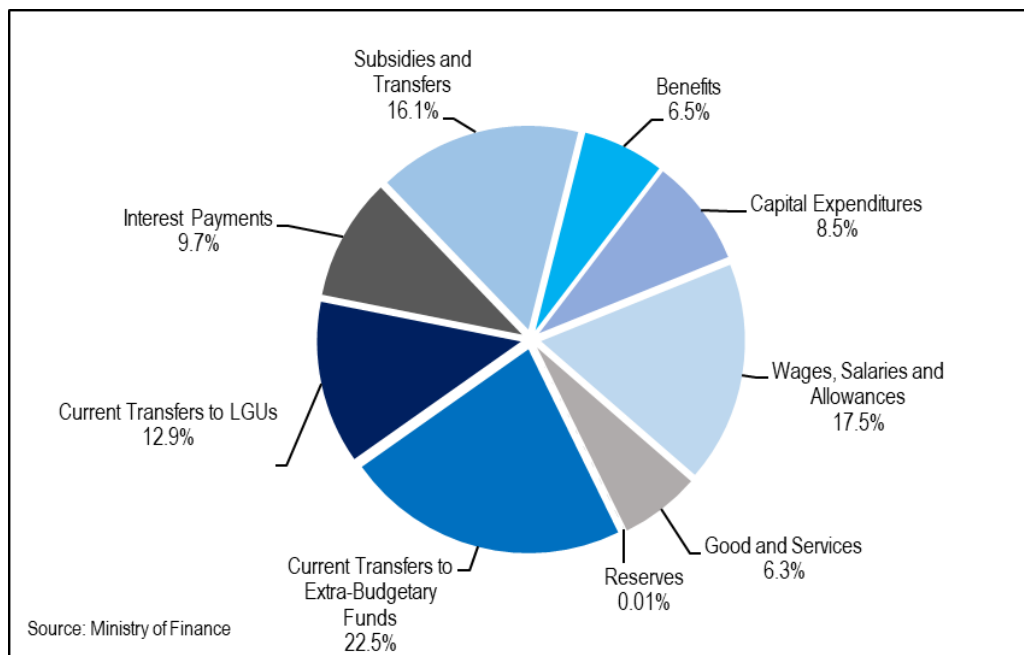
Chart 9: Structure of Collected Tax Revenues, January – June 2024



Total Core Budget expenditures were executed in the amount of Denar 114,052 million in the period January – June 2024 or 53.0% of the total funds projected under the 2024 Core Budget.

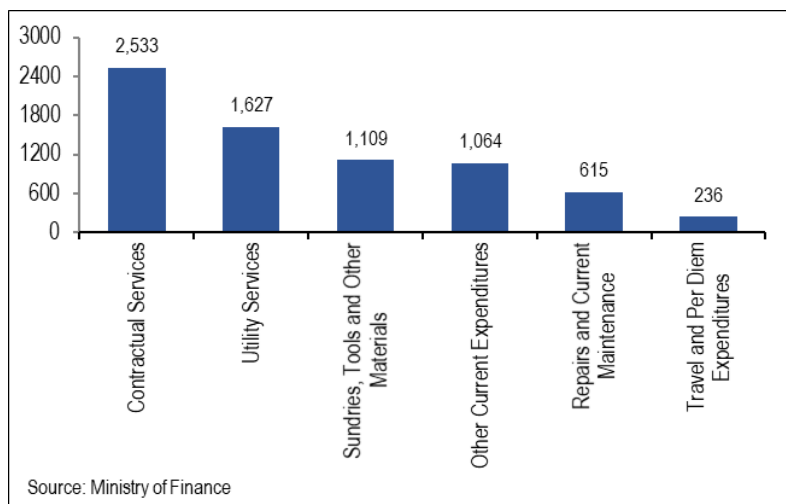
Expenditures on the basis of current transfers to extra-budgetary funds, amounting to Denar 25,634 million, accounted for the most in the structure of expenditures executed in this period, followed by expenditures on the basis of wages and allowances in the amount of Denar 19,959 million, subsidies and transfers in the amount of Denar 18,380 million, expenditures on the basis of current transfers to local government units (LGUs) amounting to Denar 14,726 million, interest payment in the amount of Denar 11,052 million, capital expenditures amounting to Denar 9,693 million, social benefit amounting to Denar 7,358 million and expenditures related to goods and services in the amount of Denar 7,250 million. Chart 10 shows their percentage share in the total expenditures.

Chart 10: Structure of Executed Expenditures according to Economic Classification, January – June 2024



Execution rate in the category goods and services accounted for 43.0%. Chart 11 shows disaggregated data on executed expenditures on the basis of goods and services.

Chart 11: Expenditures Related to Goods and Services, January – June 2024 (Denar million)



Current transfers to extra-budgetary funds in the first half of 2024 accounted for 8.7% of the annual projections. Within this category, transfers to Pension and Disability Insurance Fund of North Macedonia accounted for 56.9%, while the remaining funds were transferred to the Health Insurance Fund and the Employment Agency.

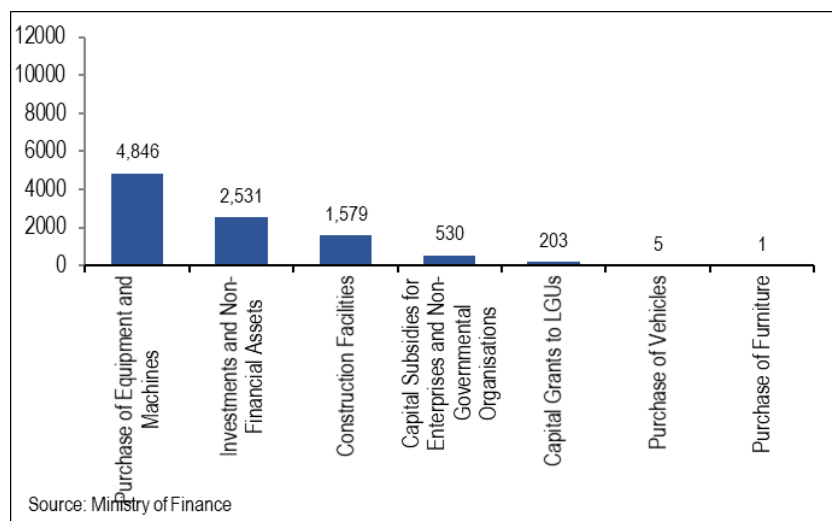
Out of the total funds projected for current transfers to LGUs in 2024, 49.4% were executed in the first half of the year. The highest amount of transfers within this category, i.e. 86.5%, was executed on the basis of block and earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

Execution rate at the “subsidies and transfers” category accounted for 61.9% in the analyzed period. Most of these expenditures, i.e. Denar 5,002 million was paid on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development.

In the period January – June, expenditures on the basis of social benefits accounted for 54.0% of annual projections.

During the analyzed period, capital expenditures accounted for 29.1% of the funds projected for this purpose in 2024 Core Budget. Chart 12 shows disaggregated data on executed capital expenditures.

Chart 12: Capital Expenditures, January – June 2024 (Denar million)



In the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 23,370 million, while interest payments amounted to Denar 11,052 million. Out of the total outflows on the basis of loan repayment, outflows on the basis of repayment of principal to domestic creditors amounted to Denar 13,473 million, while Denar 9,897 million was spent for repayment of principal to non-resident creditors. As for interest-related payments towards domestic creditors, Denar 3,160 million was paid, while Denar 7,892 million was paid to foreign creditors.

3.1.2 Funds' Budget Execution

Surplus of the Pension and Disability Insurance Fund amounted to Denar 3,538 million in the first half of 2024. By June inclusive, revenues collected and inflows performance amounted to Denar 60,447 million, accounting for 55.6% in relation to 2024 projections, while expenditures were executed in the amount of Denar 56,910 million, i.e. 51.5% of the annual projections. Out of the total revenues, revenues collected on the basis of pension and disability insurance contributions (48.4% of annual projections) amounted to Denar 32,793 million, transfers from the Core Budget amounted to Denar 25,634 million, revenues on the basis of excise duties were collected in the amount of Denar 748 million, with Denar 682 million collected in the basis of self-employment revenues and Denar 343 million as revenues collected on the basis of paid contributions, revenues collected on the basis of contributions paid by individual farmers amounted to Denar 94 million, with Denar 153 million as other revenues of the Fund.

As regards PDIF expenditures, pension expenditures were executed in the amount of Denar 44,188 million or 51.6% of 2024 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2024. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 7,878 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 4,508 million. Expenditures related to wages, goods and services and other costs amounted to Denar 336 million.

As of June 2024 inclusive, Health Insurance Fund surplus amounted to Denar 440 million, amid revenues collected in the amount of Denar 22,988 million, accounting for 49.6% of the annual projections, and expenditures executed in the amount of Denar 22,548 million, accounting for 48.6% of 2024 projections.

During the analyzed period, revenues collected on the basis of health insurance contributions amounted to Denar 14,203 million or 52% of the annual projections. Health insurance contributions for pensioners paid to the PDI Fund amounted to Denar 4,508 million, while health insurance contributions paid by the Employment Agency of RNM amounted to Denar 61 million. Transfers from the Core Budget amounted to Denar 3,915 million, revenues on the basis of co-payments were collected in the amount of Denar 251 million, while other revenues were collected in the amount of Denar 50 million. Expenditures related to primary health care amounted to Denar 18,995 million, sick leave-related costs amounted to Denar 2,592 million, expenditures for orthopedic aids were executed in the amount of Denar 393 million, while funds spent for medical treatment abroad amounted to Denar 281 million. HIF's expenditures related to wages, goods and services, as well as capital expenditures, amounted to Denar 287 million.

In the period January – June 2024, surplus of the Employment Agency of RNM amounted to Denar 922 million, amid revenues collected in the amount of Denar 2,088 million (56.8% of 2024 projections) and expenditures executed in the amount of Denar 1,166 million (29.8% in relation to the annual budget). Contributions on the basis of insurance in case of unemployment are the main revenue item, revenues thereof were collected in the amount of Denar 2,080 million, accounting for 58% of the annual projections.

In the first half of the year, EARNM expenditures related to unemployment benefits amounted to Denar 613 million, expenditures related to employment of disabled persons amounted to Denar 88 million, expenditures related to active employment measures amounted to Denar 223 million, while expenditures related to contributions paid for pension and health insurance for unemployed amounted to Denar 61 million. Agency's expenditures related to wages, goods and services amounted to Denar 181 million.

3.1.3 Budget Execution regarding Self-Revenue Accounts of Budget Users

Pursuant to 2024 Budget of the Republic of North Macedonia, budget deficit regarding the self-revenue accounts of the budget users (intended for self-financing activities, loans and donations) is projected in the amount of Denar 3,219 million, while the deficit in the analyzed period amounted to Denar 441 million.

As of June 2024 inclusive, total revenues generated on these accounts amounted to Denar 6,993 million (35.1% of 2024 projections), while expenditures were executed in the amount of Denar 7,434 million (31.1% of the annual budget). As regards the expenditures, current expenditures were executed in the amount of Denar 4,275 million or 37.3% of the annual projections, while capital expenditures were executed in the amount of Denar 3,159 million or 27% of the annual projections.

3.1.4 Budget Execution by Budget User⁴

Review of state budget expenditures and outflows for the largest budget users is shown below, the total annual budget of which accounts for 87.7% of the total budget of all budget users (Chart 13).

In the first half of 2024, Ministry of Labour and Social Policy executed funds in the amount of Denar 38,340 million or 65.3% of its total budget projected for 2024. Thereby, most of the expenditures (72.6%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 27,746 million was spent or 70.8% of the funds allocated for 2024. The second highest expenditure category was the social benefits, participating with 19.3% in the total expenditures, whereby 54.1% (Denar 7,357 million) of the expenditures projected for 2024 was executed for this purpose.

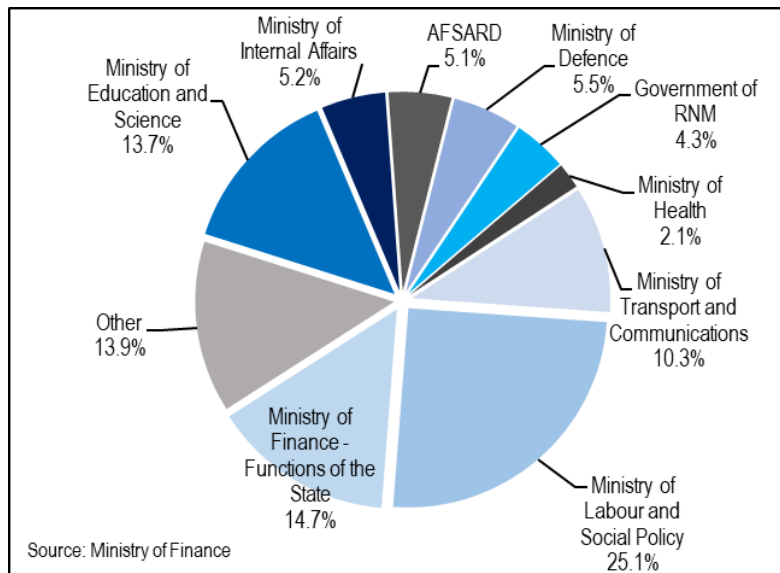
In the period January – June 2024, Denar 39,913 million, i.e. 54.7% of the funds projected for 2024, was spent through the organizational code Ministry of Finance – Functions of the State⁵. Principal repayment

⁴ Detailed data on revenues and expenditures by budget users are shown in the tables at the following link: <https://finance.gov.mk/izvestaj-trezoop/>. Data are preliminary and non-consolidated, also including the inflows and outflows of funds.

⁵ This organizational code covers the following activities: timely servicing of liabilities of the state on the basis of domestic and foreign

(Denar 23,475 million) accounts for the most in the total expenditures of this budget user, i.e. 59.4% of its total expenditures, with 52.2% of the expenditures projected for 2024 being executed. As for repayment of principal, 66.8% of the amount for the whole year, i.e. Denar 11,224 million, was executed, accounting for 28.4% of the total expenditures. Capital expenditures were the third highest expenditure item, accounting for 9.1%, with Denar 2,130 million being spent therefor.

Chart 13. Structure of Executed Expenditures and Outflows per Budget Users, January – June 2024



In the period January – June 2024, Ministry of Education and Science spent budget funds in the amount of Denar 19,215 million (51.1% of the projections), being higher by 19.1% compared to the previous year. Current transfers to LGUs accounted for the most of the expenditures (61.4%), Denar 10,752 million being spent therefor or 50.2% of total projected funds. Wages and allowances were the second highest expenditure item, accounting for 18.9%, with Denar 3,303 million, i.e. 58.1% of the total projected funds, being executed therefor.

During the first half of 2024, Ministry of Internal Affairs executed funds in the total amount of Denar 6,997 million, accounting for 53.63% of its 2024 Budget, being by 14.3% more compared to the previous year. Wages and allowances were the highest expenditure item, participating with 75.1%, Denar 4,798 million being spent therefor, accounting for 52.3% of the projected ones. Goods and services were the second highest expenditure item, accounting for 13.5%, with Denar 855 million, i.e. 64.3% of the annual projections, being executed therefor.

In the period January – June 2024, Agency for Financial Support in Agriculture and Rural Development executed funds in the amount of Denar 5,382 million (64.1% of the total funds projected for 2024). Subsidies and transfers were the highest expenditure item at this budget user, accounting for 93% of the total expenditures, with Denar 5,002 million, i.e. 72.3% of the projected funds, being executed therefor.

During the first half of 2024, Ministry of Defence executed budget funds in the amount of Denar 9,426 million, accounting for 46.8% of its total 2024 budget, and being higher by 47.2% compared to the previous year. Wages and allowances accounted for the most in the expenditures with 30.8%, with Denar 2,887 million (49.4% of the total projected funds) being spent therefor in the period January – June 2024. Expenditures related to goods and services accounted for 16.5% of the total expenditures, with Denar 1,547 million being spent therefor, i.e. 41.8% of the total projected expenditures, during the analyzed period.

borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions, payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components, etc.

During the first six months of 2024, Government of the Republic of North Macedonia executed funds in the amount of Denar 2,036 million, accounting for 39.3% of the projections for the respective year, being lower by 10.6% compared to the previous year. Capital expenditures were the highest expenditure item, accounting for 58.5%, with Denar 1,190 million, or 37.3% of the funds projected for 2024, being spent therefor. Subsidies and transfers were the second highest expenditure item, accounting for 10%, with Denar 203 million, i.e. 34.1% of the funds projected for 2024, being spent in the first half of 2024.

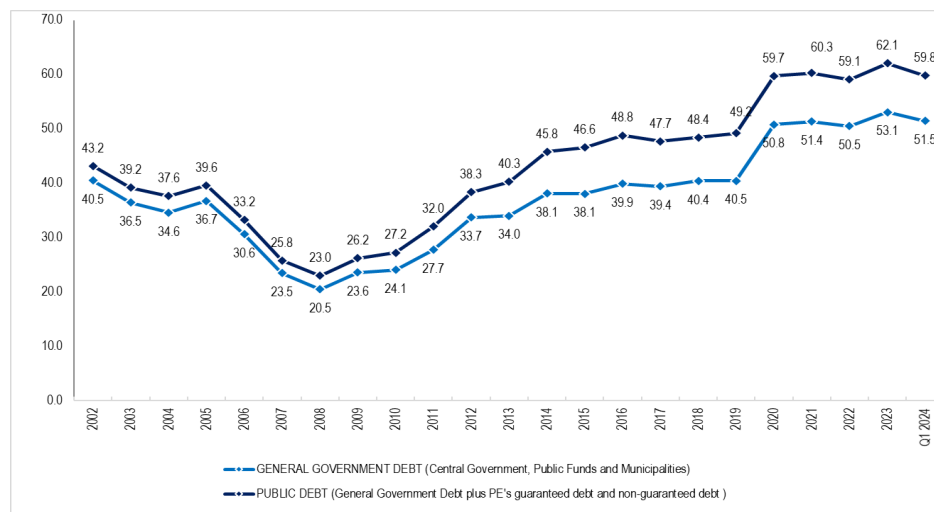
In the first half of the year, Ministry of Health executed budget funds in the amount of Denar 3,059 million (24.8% increase in relation to the same period in the previous year), accounting for 39.9% of its total 2024 budget. Expenditures for current transfers to extra-budgetary funds accounted for the most of the total expenditures with 63.5%, Denar 1,547 million, i.e. 44.2% of the funds projected for 2024, being spent therefor in the period January - June 2024. Expenditures related to goods and services were the second highest expenditure item, accounting for 27.2% of the total expenditures, with Denar 663 million, i.e. 32% of total projected fund, being executed therefor in the analyzed period.

In the period January – June 2024, Ministry of Transport and Communications executed funds in the amount of Denar 2,093 million, accounting for 10.3% of its total 2024 budget, being lower by 82.7% compared to 2023. Subsidies and transfers accounted for the most of the total expenditures at this budget user, the execution of which in the first half of 2024 amounted to Denar 326 million (44.1% of total expenditures), accounting for 49.9% of the annual budget for this purpose. Capital expenditures amounted to Denar 320 million, i.e. 2.1% of the projections for the whole year, accounting for 43.3% of the total expenditures.

3.2. Public Debt Management

At the end of the first quarter of 2024, government debt of the Republic of North Macedonia amounted to EUR 7,543.9 million, i.e. 51.5% of the GDP projected for 2024, while public debt⁶ amounted to EUR 8,769.9 million, i.e. 59.8% of GDP (Chart 15). Thereby, compared to the end of 2023, share of government debt in GDP was lower by 1.6 p.p., while share of public debt decreased by 2.3 p.p.. Data on debt level imply its restabilization, to be followed upon the debt rising period, caused by the COVID-19 induced pandemic.

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

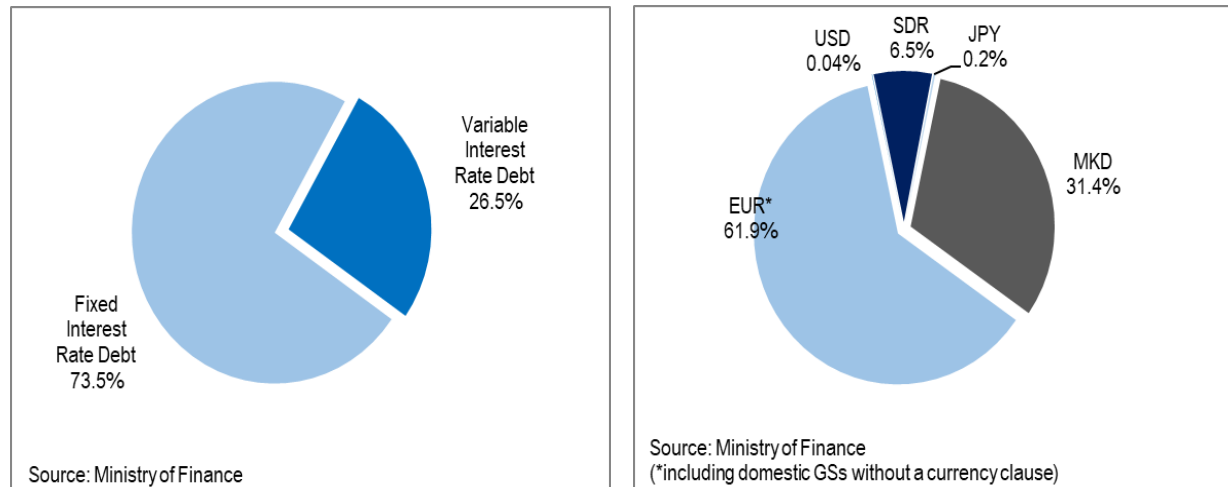


Source: Ministry of Finance

⁶ Under the amendments to the Public Debt Law dated May 209 (“Official Gazette”, no. 98/2019), non-guaranteed debt was included in the public debt definition.

From the point of view of interest structure of the government debt, at the end of Q1 2024, fixed and floating interest rate ratio was 73.5:26.5 respectively (Chart 15). As regards currency composition, Denar - denominated debt accounted for 31.4% in the total government debt portfolio, whole debt denominated in foreign currency accounted for 68.6%. Thereby, euro-denominated debt accounted for 61.9% of the total government debt (also including domestic securities with FX clause), Special Drawing Rights accounted for 6.5%, Japanese Yen-denominated debt accounted for 0.2%, with the US dollar denominated debt accounting for 0.04%.

Chart 15. Interest (left) and Currency (right) Structure of Government Debt in Q1 2024



In the period January – June 2024, Ministry of Finance issued government securities, on regular basis, on the domestic market, in line with the Calendar for Issuance of GS.

In the course of Q1 2024, Fitch Ratings and Standard & Poor's revised the country's credit rating.

- In January 2024, Standard & Poor's affirmed the sovereign BB - credit rating with stable outlook. As per Standard and Poor's, the proactive policymaking by the Government, as well as its moderate government debt levels, will offset the multiple risks arising from the conflict in Ukraine. As pointed by Standard and Poor's representatives, fiscal consolidation is expected to continue. Effects from the crisis will continue in 2024, however, budget deficit is expected to reduce to 3.4% of GDP to 4.6% in 2023.
- In April 2024, Fitch ratings affirmed the sovereign BB + credit rating with stable outlook. According to Fitch, growth is expected to strengthen to 2.9%, with private consumption as its main contributor owing to an improvement in real wages, work on the 8/10d highway project, and continued net FDI inflows. As per Fitch forecast, growth is expected to pick up further in 2025 to 3.6% as the prospects for country's key trading partners improve. Financing flows from the EU's new Growth Plan for the Western Balkans are an upside.