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GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA

FISCAL POLICY STATEMENT FOR THE PERIOD 2024-2028

September 2024

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1. The fiscal policy statement for the period 2024-2028 is provided by the Government of the Republic of North Macedonia in accordance with Article 12 of the Law on Budgets ("Official Gazette of the Republic of North Macedonia" No. 203/2022 and No. 76/2024) and contains the guidelines for the fiscal strategy during the mandate of the Government of the Republic of North Macedonia.

The fiscal policy for the period 2024-2028 will be directed towards the following goals:

- Improving macroeconomic stability, supporting economic activity, accelerating economic growth,
- Achieving fiscal rules through gradual fiscal consolidation and disciplined budget spending,
- Achieving a high level of capital expenditures through the realization of investments in infrastructure projects,
- Reducing the gray economy and increasing the collection of funds for the state budget, and
- Strengthening the potential for growth of the domestic economy.

2. Principles on which the Fiscal Policy for the period 2024-2028 is based:

- Principle of Fiscal Responsibility: The Budget must be planned and executed in accordance with medium-term fiscal goals, based on a realistic projection of macroeconomic indicators, undertaken obligations, and existing legal commitments.
- Principle of Economy, Efficiency, and Effectiveness: The Budget should ensure effective and efficient use of public funds to achieve the set strategic goals.
- Principle of Budget Comprehensiveness: All revenues and other inflows, and all expenditures and other outflows of all budget users, must be included in the Budget.
- Principle of Universality: All revenues and other inflows should be used to cover all expenditures and other outflows of the Budget.
- Principle of Specificity: Budget users may undertake obligations and make payments only for the purposes and in the amounts specified by the Budget, in accordance with budget classifications.
- Principle of Cash Basis: Budgets or financial plans of budget users should be prepared and executed on a cash basis.
- Principle of Secure Financial Management: The Budget must be executed in accordance with effective and efficient internal control as a process applied at all levels of financial management.

3. The Government's priority goal during its mandate will be to create the preconditions for a new cycle of economic growth, with the following objectives:

- GDP growth, starting from 2025, is expected to accelerate and range from 3% to 5% by 2028. Economic growth will be based on high levels of capital investments, increased financial support for investment activities of domestic production companies, the expansion of existing and attraction of new foreign companies. Strategic investments in infrastructure and energy, support for innovation, competitiveness, and productivity of companies, along with measures for digitalization and innovations in information technology, will contribute to increased overall productivity in the economy and create conditions for sustainable economic growth. A key assumption for achieving accelerated growth is that there are no unforeseen political and economic disruptions at the global and regional levels.

- The main driver of growth will be gross investments and capital expenditures from the Budget, especially in infrastructure, as quality infrastructure enables business entities to be competitive and develop, attracts and retains foreign investments, and improves the quality of life for the population.
- Significant growth is also expected from private investments as a result of the planned support to strengthen their competitiveness and productivity, the expansion of existing and attraction of new foreign companies in high value-added activities.
- Increased support for companies to strengthen their competitiveness, innovation, and productivity will enhance the country's export potential, which will contribute to improving the country's external position and gradually reducing the trade deficit, with the net export contribution expected to moderately move into the positive zone starting in 2027 due to stronger export growth compared to imports. Consequently, the current account deficit is expected to remain moderate and gradually decrease.
- In the medium term, inflation is expected to stabilize at around 2% annually, assuming stabilization of the prices of basic food products and energy sources in the international market.
- Reduction of the unemployment rate to 7.5% and the creation of about 55 thousand new jobs. Through better targeting of social assistance measures and activation of the unemployed, through active employment measures and programs, further improvement of labor market conditions is expected, with a particular focus on young people, women, and vulnerable population categories, to acquire skills, additional qualifications, and re-qualifications, as well as support for entrepreneurship.
- Unemployment will also be reduced through the improvement of the business climate to a level among the best in the world, which will provide direct support to domestic firms for new investments and the opening of new jobs and attract new foreign direct investments.

4. Public finances and fiscal policy in the period 2024-2028 will be directed towards:

- Improving macroeconomic stability and supporting economic activity,
- Disciplined budget policy, gradual fiscal consolidation, and reduction of the budget deficit level in accordance with fiscal rules,
- Improving the structure and management of public finances, as well as maintaining a high level of capital expenditures, and
- Achieving a moderate level of total debt.

Public finances and fiscal policy from paragraph 1 of this article will be implemented through:

4.1. Tax Policy

The tax policy will function to support economic growth and increase the welfare of citizens.

The goal of the tax policy is to provide a fair, efficient, transparent, and modern tax system based on contemporary digital technologies and innovations in taxation, aiming to achieve accelerated, inclusive, and sustainable economic growth.

The goal of the tax policy will be achieved through:

- Digitalization of tax procedures, as one of the main activities in the tax reform process, aims to maximize resource utilization and make tax payments with minimal effort.
- Introduction of e-invoicing is one of the first activities planned for the upcoming period to ensure tax control is conducted more efficiently while saving resources in tax administration and for taxpayers.
- Certain tax exemptions/positive tax treatments: for life insurance premiums paid for the benefit of employees (to be treated as deductible expenses for companies), income tax exemption for newly employed young people up to 29 years old, and tax exemptions for individuals who have lived abroad for at least one year and return to live in Macedonia, according to pre-determined conditions. This will increase motivation among employees in the economy and improve the country's demographic picture.
- Certain tax incentives or subsidies for mothers of newborns, as well as incentives related to the construction of private kindergartens.
- The threshold for mandatory VAT registration for related parties would be increased from 2 to 3 million denars, but only for the consolidated turnover of VAT-related taxpayers. To increase liquidity in the economy, a simplified and more efficient method of VAT refund for taxpayers who meet the prescribed conditions is planned.

The tax policy will be based on:

- Reducing the gray economy and increasing the collection of funds for the state budget,
- Increased digitalization to reduce the gray economy and establish an efficient tax system, ensuring that everyone pays their tax obligations fairly and justly, and
- Maintaining low tax rates while simultaneously providing a greater amount of funds for capital investments, tax exemptions, subsidies, and incentives for the operations of the domestic private sector and citizens.

4.2. Budget Policy

The budget policy will be based on the following assumptions:

- Sustainable and disciplined budget spending to increase budget discipline and responsibility, with annual budget projections aligned with established strategic priorities and macroeconomic parameters,
- Reducing non-essential expenditures and significantly improving the efficiency and effectiveness of budget spending,
- Support and subsidies for citizens and the economy will be provided through clearly defined criteria for budget support,

- Performance and results-based budgeting to improve the efficiency and effectiveness of public expenditures by developing and continuously monitoring indicators for measuring the success of policy implementation in the budget,
- Budgeting based on the principle of realism, i.e., budget revenues will be planned in amounts that can realistically be achieved, and expenditures at levels that can be executed,
- Redesigning the budget structure and higher capital investments aimed at implementing infrastructure projects, primarily for the construction of transportation and communal infrastructure, investments in energy capacities, investments in educational, health, and other public infrastructure, and
- Strategic planning of large infrastructure projects.

To regulate the process of determining medium-term priorities and selecting new initiatives in the form of public investment projects, it is envisaged that all project ideas will be developed in a standardized manner, first with the preparation of a project concept and then a more detailed feasibility study, which will be the basis for project assessment and evaluation.

The Ministry of Finance should conduct an independent evaluation of higher-value public investment projects, which involves reviewing the feasibility studies and providing an opinion on the fiscal impact, risks, and sustainability.

The Government will introduce filters in the phases of project identification and preparation, which will contribute to improving the maturity and readiness of projects and their successful implementation. In this way, a single list of infrastructure projects will be created that will be evaluated and ready for implementation, contributing to their successful execution.

These practices will also be applied at the local level by municipalities and municipal councils. In terms of project monitoring, a centralized risk-based monitoring system will be introduced, including high-level oversight by the Ministry of Finance for most projects and more careful control of projects with higher implementation risks.

After securing project funding, the responsibility for its implementation rests with the project implementers. These entities are not only responsible for executing the project but also for carefully monitoring its financial and physical progress during the implementation phase.

In addition to continuous monitoring, these entities are required to prepare and submit progress reports to the Ministry of Finance. These reports will serve as key documentation for tracking project development and as an instrument for maintaining transparency and accountability.

This dual oversight ensures that the project stays on track and adheres to budgetary and time expectations. Careful monitoring and periodic reporting requirements provide the Government with information on the progress of funded projects, promoting transparency, accountability, and timely intervention, if necessary, to ensure successful project implementation.

The Ministry of Finance will increase transparency by preparing progress reports on the portfolio of public investment projects based on data provided by project implementers and informing the Government.

Additionally, the Government will establish special rules for the fundamental review of projects that deviate from the initial project implementation plan in terms of increased project costs above initially planned and delays in implementation. This will proactively manage project risks to minimize their fiscal impact.

Strategic and systematic planning of large infrastructure projects will contribute to maintaining the level of capital expenditures at around 5% of nominal GDP annually. The projection of the budget deficit of the general government for a given fiscal year is expected to gradually decrease and achieve the fiscal rule of 3% of nominal Gross Domestic Product (GDP) by 2027.

4.3 Public Debt Management Policy

One of the priority goals of the Government set out in the 2024-2028 Work Program is to increase the living standards of citizens in Macedonia by ensuring the sustainability of public debt. Therefore, in the period 2024-2028, the medium-term fiscal policy and public debt management policy will be designed in a way that reflects this commitment of the Government.

The public debt management policy will be aimed at securing the necessary funds for financing the budget deficit, repaying debts that mature as a result of previous borrowings, and project financing, without causing an unjustified increase in debt to a level that could jeopardize the stability of the economy and the economic growth of the country.

5.This statement is published on the website of the Ministry of Finance and the Government of the Republic of North Macedonia.

No.41-9111/3
24 September 2024,
Skopje

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North Macedonia
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