



**REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE**

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

JANUARY – JUNE 2022

Skopje, July 2022

Summary

- In the course of the first quarter of 2022, Gross Domestic Product picked up by 2.4% in real terms, as a result of the greater domestic demand, amidst increased consumption and scaled-up gross investments;
- Unemployment rate, according to the Labor Force Survey, dropped to 14.8% in the first quarter in 2022, declining by 1.2 p.p. compared to the same quarter in the previous year;
- During the first half of 2022, inflation rate accounted for 10.0% as a result of the high growth of import prices due to the growth of prices of primary commodities on the global stock markets, as well as the rising prices of oil derivatives;
- Total budget revenues were collected in the amount of Denar 116, 426 billion in the period January – June, accounting for 48.7% of the amount projected for 2022, increasing by 14.8% compared to the first half of the previous year;
- Total budget expenditures were executed in the amount of Denar 126,770 billion in the period January – June 2022, accounting for 46.5% of the annual projections, increasing by 8.3% compared to the first half of the previous year;
- In the period January – June 2022, the state budget deficit amounted to Denar 10,344 million, accounting for 30.9% of the projected deficit, i.e. 1.3% of the GDP projected for 2022;
- At the end of the first quarter of 2022, government debt of the Republic of North Macedonia accounted for 46.81% of GDP, while public debt accounted for 54.9% of GDP.

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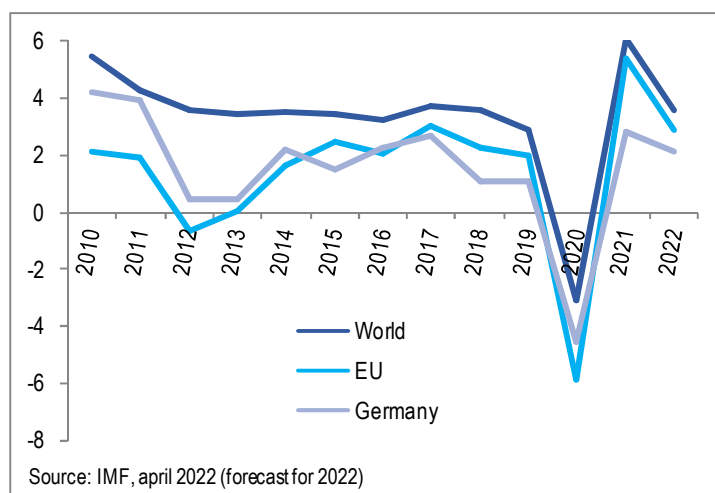
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1. International Economic Trends¹

Global economy has been greatly affected by the Russian invasion of Ukraine, accompanied by numerous sanctions against Russia, for the purpose of exerting pressure to end the military hostilities. Global economic growth is forecasted to slow down as a result of the economic consequences of the Russia-Ukraine armed conflict, i.e. deterioration of the already disrupted global supply chains and the energy market, strong growth of prices of primary food and energy products on the international market, undermined investors' confidence, stringent financial requirements, etc. This crisis is happening in times when the global economy has not yet fully recovered from the COVID-19 pandemic. Such events are expected to adversely affect economic growth, causing a significant increase in the inflation rate, rising interest rates and difficulties as regards the public debt management, which will make fiscal consolidation more complicated.

In 2022, global economic growth is expected to slow down by 3.6% in 2022, according to the latest International Monetary Fund forecasts, while the EU economic growth is projected at 2.9%, following the 5.4% growth last year. In Germany, as the largest economy within the EU and our major trading partner, the economic activity growth is projected at 2.1% (Chart 1).

Chart 1. Global Economic Growth (%)



Risks related to the projections, are downside as a result of the high uncertainty from the further evolution of the conflict, as well as the introduction of new set of sanctions against Russia. If the war in Ukraine is quickly brought to an end, it will provide for boosting the confidence, reducing the price pressures, as well decreasing the bottlenecks as regards the supply, however, growth is likely to continue to slow down, whereby inflation will remain higher than expected. Escalation of the war may be reflected via the deepened humanitarian crisis, the increased number of refugees, as well as the reinforced sanctions against Russia, which would adversely affect foreign trade, foreign investments, thus further deepening the energy crisis. Rising interest rate, amidst higher public debt resulting from the COVID-19 pandemic, is expected to increase the budget deficits and impede the fiscal consolidation process. Re-spread of Covid-19 can also be a source of adverse impact, in particular the introduction of restrictive measures in China, whereby the emergence of new virus strains can pose a serious risk.

¹Analysis of this part is based upon the International Monetary Fund Report, "World Economic Outlook", published in April 2022.

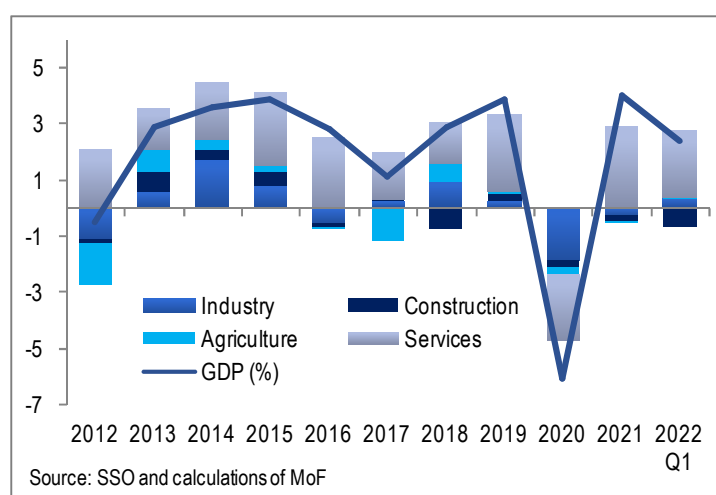
2. Macroeconomic Trends in the Country²

2.1. Economic Activity

In the first quarter of 2022, GDP recorded annual growth of 2.4% in real terms, as a result of the positive performance in the services, industrial and agricultural sector, having positive contribution to the economic growth, thus the further gradual recovery of the domestic economy continued in the post-pandemic period.

Activity in the services sector as a whole, picked up by 4.1% in the first quarter, being a result of the favourable trends in the following activities: Trade, transport and hospitality industry by 11.2%, Expert, scientific and technical activities by 5.9%, Financial and insurance activities by 1.9%, Arts, entertainment and recreation by 1.3%, Real estate-related activities by 1.2% and Information and communications by 0.4%. Decline was registered at Public administration, defense, education and health by 1.1%. Positive trends in Trade sector, according to the high-frequency data, continued in April and May, in conditions of sales increase at all segments.

Chart 2. Economic Growth Structure According to Production Method (contribution to growth, percentage points)

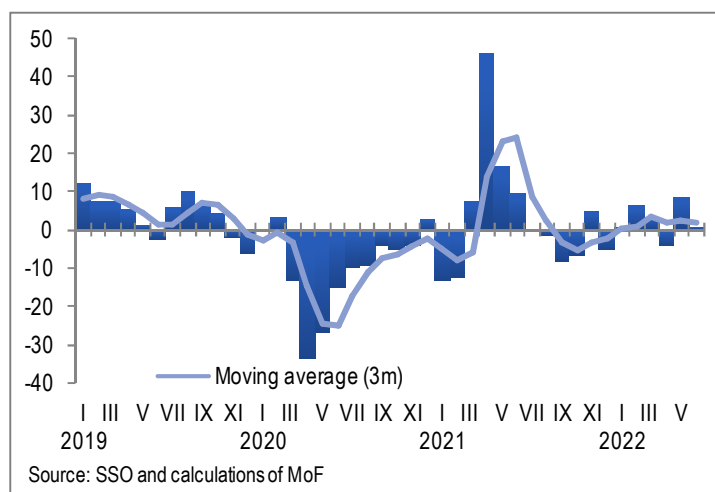


During the first quarter, activity in the industrial sector grew by 2.2%. In line with the monthly data on industrial production, Mining, Manufacturing and Energy sector recorded positive contribution to the industry. High-frequency data demonstrate further positive trends in the industry, by which industrial production growth accounted for 2.9% in the period January-May. Manufacture of motor vehicles, Manufacture of wearing apparel and Manufacture of rubber and plastic products has more significant contribution to the growth.

Construction sector declined by 17.2% in the first three months, which as per the high-frequency data, was a result of the drop as regards high buildings, while growth was recorded in the civil engineering structures during the first quarter. Agriculture registered minimum growth of 0.3% following the 4.6% drop in the previous quarter, by which variable trends in this sector continued.

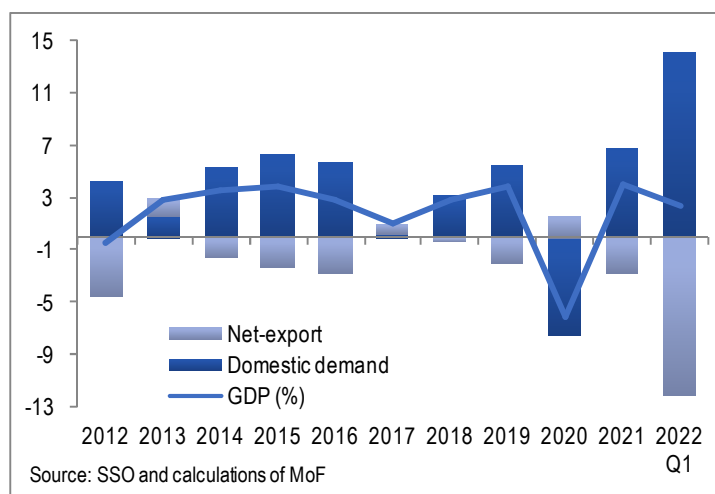
²Latest available data are used in the Report. Data on GDP, unemployment and balance of payments are available as of the first quarter of 2022 inclusive.

Chart 3. Annual Growth of Industrial Production (%)



Analyzed according to the expenditure side, economic activity growth was a result of the stronger domestic demand, amid increased consumption and scaled up gross investments, while the contribution of net export was negative. Gross investments picked up by 38.6%, thus their further recovery continued. Consumption recorded a 4.0% growth in real terms, under which private consumption supported by the growth of wages, remittances, as well as the solid credit activities, increased by 4.9%, while public consumption surged by 0.5% in real terms.

Chart 4. Economic Growth Expenditure Structure (contribution to growth, percentage points)



In the course of the first quarter, export of goods and services picked up by 11.1% in real terms, which was mostly a result of the boosted export of chemical products, iron and steel, as well as mineral oils and lubricants. Import of goods and services recorded higher growth than import, i.e. it increased by 24.4% in real terms, by which net export had negative contribution to the economic growth. Boosted import mostly resulted from the import of intermediary goods, growing by 37.9% (Chart 4). In fact, in 2021, foreign trade showed signs of recovery, following its drop in 2020 due to the COVID-19 induced pandemic, upon its intensification in the first five months of 2022, whereby export of goods increased by 18.8%, while import of goods grew by 29.6%, in nominal terms.

Economic activity in 2022 is envisaged to get back to the pre-crisis level but with a lower growth than the previously projected one, as a result of the economic consequences of the Russia-Ukraine armed conflict, i.e. deterioration of the already disrupted global supply chains and the energy market, strong increase of the

prices of primary food and energy products on the international market, undermined investor's confidence, etc. Such events are expected to adversely affect the foreign demand, in conditions when exacerbated expectations about the global and economic growth in the EU, as well as the domestic demand, i.e. investments in fixed assets and consumption.

Country is expected, given the adopted economic measures aim at coping with the energy and the price crisis, to contribute to protecting the living standard of citizens, thus also providing financial support to the business entities, all to the end of faster economic recovery. In the medium-term, fiscal policy, via the redesigned public expenditures, with an emphasis on reinforcing 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 growth via the Growth Acceleration Financing Plan.

Economic growth in 2022 is projected at 3.2%, boosted by domestic demand, while net export is expected to have negative contribution, envisaged to gradually narrow, amid growth of both export and import.

Economic growth decomposition shows that investments will play crucial role in the economic growth support. Gross investments are projected to experience real growth of 5% in 2022, amid expected growth of both public and private investments. Consumption is also envisaged to support domestic demand growth. Private consumption is projected to pick up by 3.3% real terms, with growth of public consumption projected at 1.2%.

Table 1. Comparison of Economic Growth and Inflation Forecasts for 2022 (%)

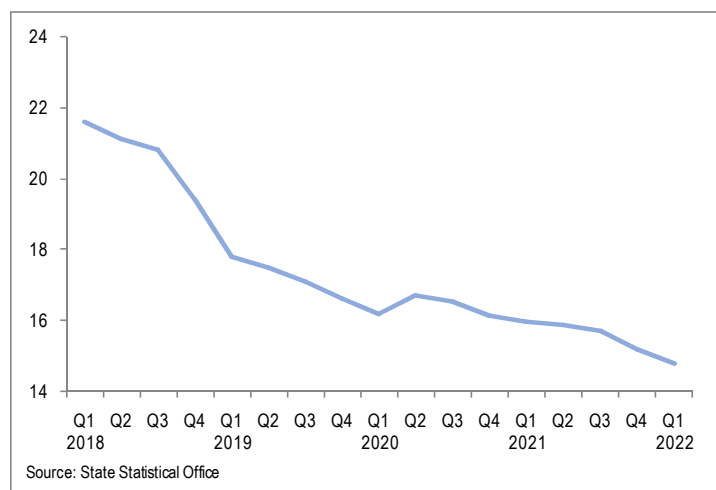
	Economic growth	Inflation
Ministry of Finance	3.2	7.2
IMF	3.2	6.9
World Bank	2.7	5.5
European Commission	3.0	6.7
EBRD	3.0	/
Fitch Ratings	2.8	6.3
National Bank of RNM	2.9	8.8

Source: IMF (World Economic Outlook, April 2022), World Bank (Western Balkans Regular Economic Report, May 2022), European Commission (European Economic Forecast, May 2022), EBRD (Regional Economic Prospects, May 2022), Fitch Ratings (April 2022), National Bank of RNM (Quarterly Report, May 2022).

2.2. Labor Market

Unemployment decline continued in the first quarter of 2022 according to the Labor Force Survey³, i.e. unemployment rate dropped to 14.8%, decreasing by 1.2 p.p. compared to the same quarter in the previous year (Chart 5).

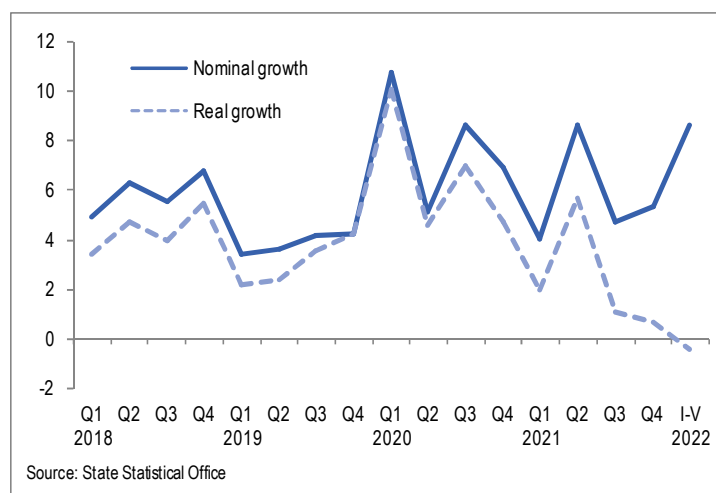
Chart 5. Unemployment rate (%)



During the first quarter of 2022, employment rate accounted for 47.1%, being unchanged when compared to the same quarter in 2021, while active population comprised 55.3% of the total working age population, decreasing by 0.7 p.p. compared to the same quarter in 2021.

During the first four months of 2022, wages recorded average growth of 8.4% in nominal terms, which growth was intensified in March and April, as a result of the minimum wage growth (Chart 6). During this period, average wage growth was recorded in all sectors, being most evident in Hospitality industry, Trade, Expert and administrative services, Arts, some of the activities in the industrial sector, Mining and Agriculture.

Chart 6. Increase of Average Net Wage (%)

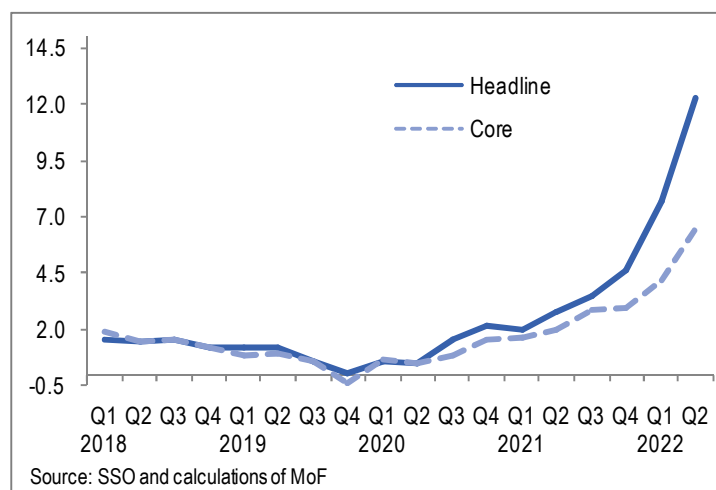


³In line with the notification of the State Statistical Office, when processing data on the first quarter of 2022, regional demographic distributions by gender and five-year age groups were used for calibration of the population as per the data under the 2021 Inventory.

2.3. Inflation and Monetary Trends

During the first half of 2022, inflation rate accounted for 10.0% as a result of the high growth of import prices due to the growth of primary commodities on the global stock markets. Increase of prices on global stock markets was due to the disruptions on the supply side stemming from the disrupted supply chains caused by the COVID-19 pandemic, as well as the armed conflict in Ukraine. Prices of energy products on the domestic market in the first half of 2022 surged as a result of the administrative increase of the electricity prices for households as per the decision of the Energy Regulatory Commission. Food prices having the highest contribution to the price surge, picked up by 13.9% in the first half of 2022. During this period, core inflation accounted for 5.4%, also reflecting the spill over effects from the increased prices of food and energy products.

Chart 7. Headline and Core Inflation (%)



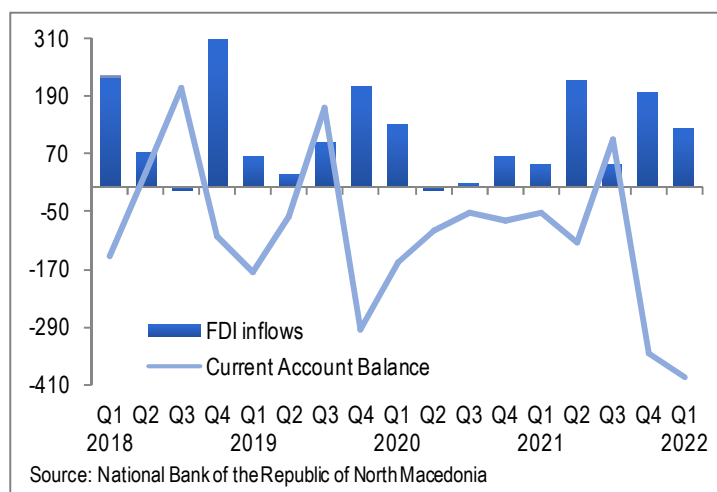
In response to the rising inflation and the inflation expectations, during the first half of the year, the National Bank reached a decision to tighten the monetary policy, thereby increasing its policy rate at three occasions, following the increase in April and May (by 0.25 p.p., respectively), this policy rate was increased by 0.25 p.p. in June, accounting for 2.0%. Decision on tightening of monetary policy is based upon the assessments that import price pressures are more enduring and stronger, generating certain spill over effects at several price categories and affecting the inflation expectations.

On annual basis, total credits grew by 9.9% in May 2022, amid growth of both credits to enterprises of 11.4% and credits to households of 8.0%. Total deposit potential in May 2022 grew by 2.4% on annual basis, analyzed according to currency, Denar deposits decreased by 5.8%, while foreign currency deposits grew by 14.4%. Sector analysis showed that deposits of enterprises and households picked up by 0.4% and 4.5%, respectively.

2.4. Balance of Payments

BOP current account registered deficit in the amount of EUR 392.4 million in the first quarter of 2022 which, compared to the same period in the previous year, was widened by EUR 339.5 million, being entirely due to the increased deficit at the trade of goods and services. Inflow of foreign direct investments (FDIs) amounted to EUR 122.4 million, which was mostly on the basis of reinvested earnings, and to a lesser extent on the basis of equity and debt instruments.

Chart 8. Current Account Balance and FDI Inflow (EUR million)



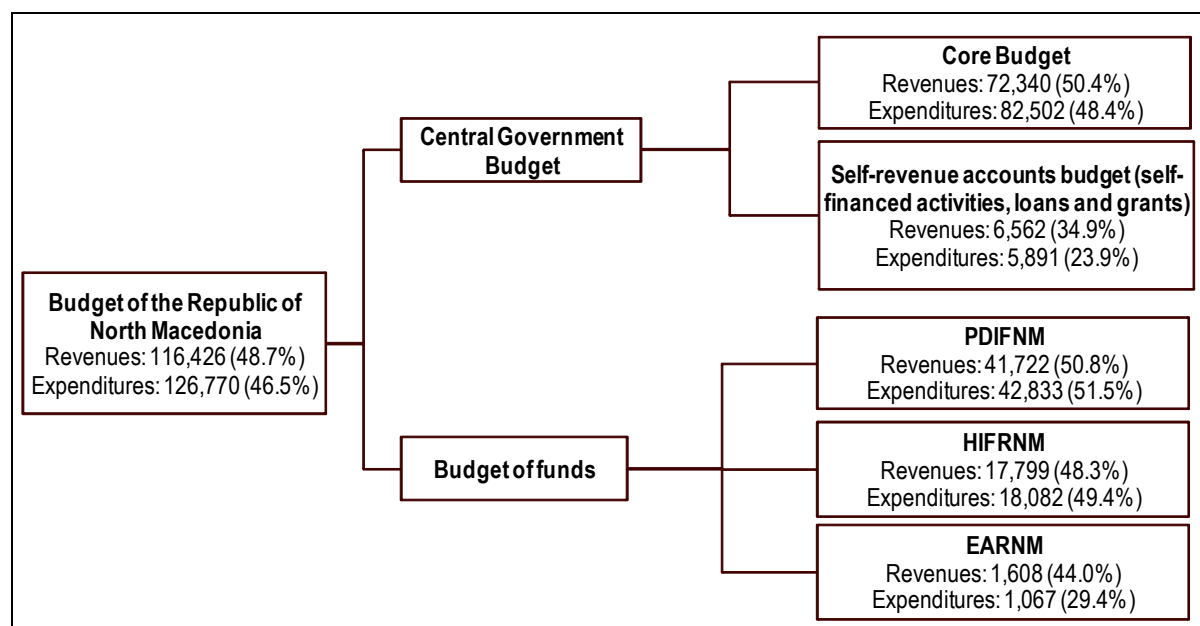
Reserve assets amounted to EUR 3 billion in June 2022, providing for 3.6-month coverage of import of goods and services in the coming 12-month period, being at an adequate level to conduct the monetary policy.

3. Fiscal Sector

3.1 Budget of the Republic of North Macedonia

Under 2022 Budget of the Republic of North Macedonia, total revenues and total expenditures are projected in the amount of Denar 238,899 million and Denar 272,428 million respectively, i.e. deficit is projected in the amount of Denar 33,529 million (Core Budget deficit amounting to Denar 26,846 million, Funds' deficit amounting to Denar 812 million and self-revenue accounts deficit amounting to Denar 5,871 million).

Chart 9. Scheme of the Budget of RNM - performance (Denar million) and realization rate (%) in the first half of 2022



Total budget revenues were collected in the amount of Denar 116,426 million, accounting for 48.7% of the projected amount for 2022, being an increase by 14.8% compared to the total budget revenues collected in the same period in 2021 (Table 2). As regards total revenues, Denar 106,101 million was collected on the basis of tax revenues and social contributions, by which the realization rate accounts for 50.3% of the amount projected for 2022, being 15.9% increase in relation to the previous year. Thereby, tax revenues were collected in the total amount of Denar 69,725 million⁴ (accounting for 51.1% of 2022 projected amount), while social contributions amounted of Denar 36.376 million (annual increase of 7.9%, accounting for 48.9% of 2022 projected amount). As regards tax revenues, increased collection was recorded at all taxes, with profit tax revenues registering the highest increase of 48.6%, followed by higher revenues collected on the basis of import duties by 22.1%, VAT by 19.8%, PIT by 17.0% and excises by 9.0%.

Total budget expenditures were executed in the amount of Denar 126,770 million in the period January – June 2022, accounting for 46.5% of the annual projections, i.e. increase of 8.3% compared to the first half of 2021. Thereby, current expenditures were executed in the amount of Denar 118,238 million, i.e. 50.5% of the amount projected for the whole year, being an increase of 7.0% compared to the same period in 2021. Increase was registered at interest payments of 21.9%, expenditures related to goods and services of 3.8% and expenditures related to wages and allowances of 3.5%. Transfers, as the largest category of current expenditures, increased by 7.2%, driven by the high growth of subsidies and transfers by 17.8%, as well as VAT grants by 11.5%. However, as regards transfers, social transfers surged by 7.1%. Capital expenditures were executed in the amount of Denar 8,532 million, being by 30.0% higher compared to the same period in 2021. Realization rate of capital expenditures accounted for 22.3% in the first half.

⁴Self-revenue accounts amounting to Denar 874 million are also included

Table 2. Budget Execution for the period January – June 2022

	Budget 2022	January - June 2022			Jan - Jun 2017-2021	Jan - Dec 2017-2021
	in denar million	in denar million	yearly growth rate	execution rate	average execution rate (compared to original budget)	
TOTAL REVENUES	238,899	116,426	14.8%	48.7%	45.1%	95.8%
Taxes and Contributions	210,829	106,101	15.9%	50.3%	46.3%	98.2%
Taxes	134,103	68,851	20.4%	51.3%	45.5%	97.9%
Personal Income Tax	21,051	10,850	17.0%	51.5%	45.0%	98.1%
Profit Tax	12,313	9,033	48.6%	73.4%	50.6%	94.2%
VAT	62,240	31,879	19.8%	51.2%	45.0%	97.7%
Excises	28,779	11,954	9.0%	41.5%	42.7%	96.9%
Import Duties	8,983	4,824	22.1%	53.7%	53.1%	113.4%
Other Taxes	738	311	2.6%	42.1%	41.7%	95.3%
Contributions	74,371	36,376	7.9%	48.9%	48.4%	99.8%
Non Tax Revenues	19,171	7,873	19.5%	41.1%	39.3%	80.6%
Capital Revenues	3,330	776	80.0%	23.3%	24.8%	91.3%
Foreign Donations	5,570	1,676	-41.0%	30.1%	35.0%	73.3%
Revenues from repayment of loans	0	0	/	/	6.3%	14.0%
TOTAL EXPENDITURES	272,428	126,770	8.3%	46.5%	46.1%	94.9%
Current Expenditures	234,192	118,238	7.0%	50.5%	49.0%	98.0%
Wages and Allowances	32,679	15,746	3.5%	48.2%	48.4%	96.4%
Goods and Services	20,656	8,710	3.8%	42.2%	38.0%	82.5%
Transfers	170,785	88,658	7.2%	51.9%	51.6%	100.7%
Social Transfers	124,497	63,562	7.1%	51.1%	49.7%	99.2%
Pensions Fund	74,220	38,739	8.7%	52.2%	50.2%	99.3%
Unemployment Benefits	2,810	780	-9.4%	27.8%	41.2%	100.2%
Social Benefits	11,417	6,196	2.8%	54.3%	48.3%	96.6%
Health Care	36,050	17,847	6.0%	49.5%	49.8%	99.8%
Other Transfers	43,131	24,161	10.7%	56.0%	57.8%	106.1%
Interest	10,071	5,124	21.9%	50.9%	32.1%	93.5%
Capital Expenditures	38,236	8,532	30.0%	22.3%	23.0%	70.0%
BUDGET BALANCE	-33,529	-10,344	-34.0%	30.9%	60.7%	83.6%

Source: Ministry of Finance

In the period January – June 2022, budget deficit amounted to Denar 10,344 million, accounting for 1.3% of 2022 projected GDP, i.e. 30.9% of the annual projections (Table 2). Within the Budget of the Republic of North Macedonia, Core Budget deficit amounted to Denar 10,162 million, deficit of the Funds amounted to Denar 853 million, with the surplus on the self-revenue accounts amounting to Denar 671 million.

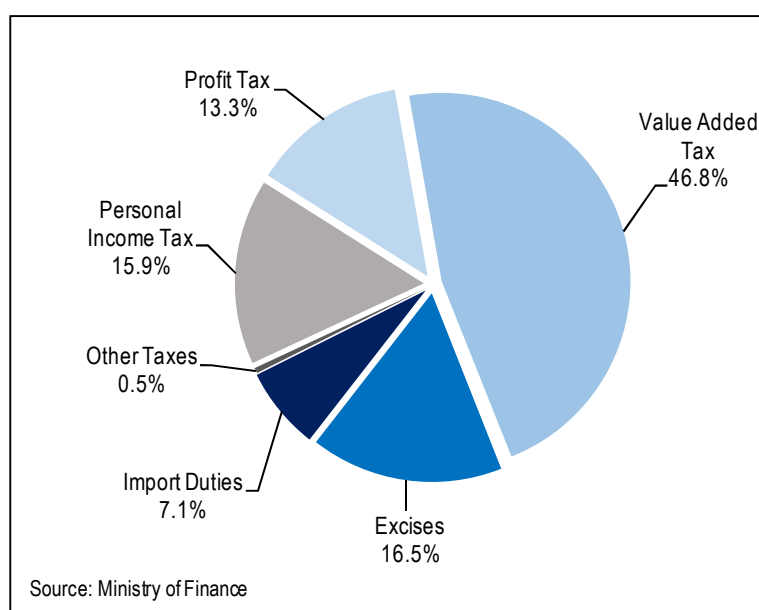
3.1.1 Execution of the Core Budget

Total Core Budget revenue collection amounted to Denar 72,340 million in the period January – June 2022, accounting for 50.4% of the total revenues projected for 2022 in the amount of Denar 143,545 million.

Tax revenues, being the highest revenue item within the total revenues, were collected in the amount of Denar 68,169 million, i.e. 51.4% of the annual projections, while non-tax and capital revenues were collected in the amount of Denar 4,171 million or 38.4% of the revenues projected for the whole year.

Structure of collected tax revenues showed that VAT revenues accounted for the most with Denar 31,879 million or 46.8% of the total tax revenues (Chart 10), followed by revenues on the basis of excise duties collected in the amount of Denar 11,272 million, revenues on the basis of PIT in the amount of Denar 10,850 million, profit tax revenues collected in the amount of Denar 9,033 million, revenues on the basis of import duties in the amount of Denar 4,824 million and other tax revenues in the amount of Denar 311 million.

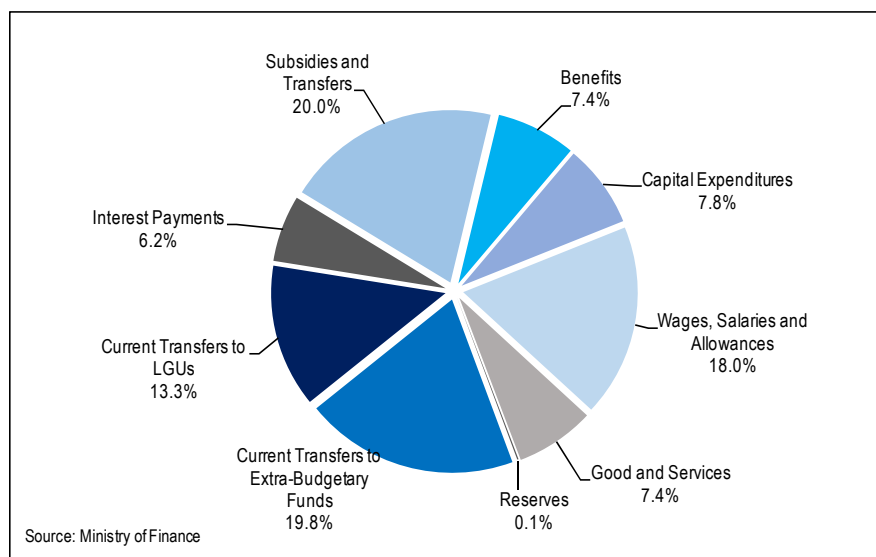
Chart 10: Structure of Collected Tax Revenues, January – June 2022



Total Core Budget expenditures were executed in the amount of Denar 82,502 million in the period January – June 2022 or 48.4% of the total funds projected under the 2022 Core Budget.

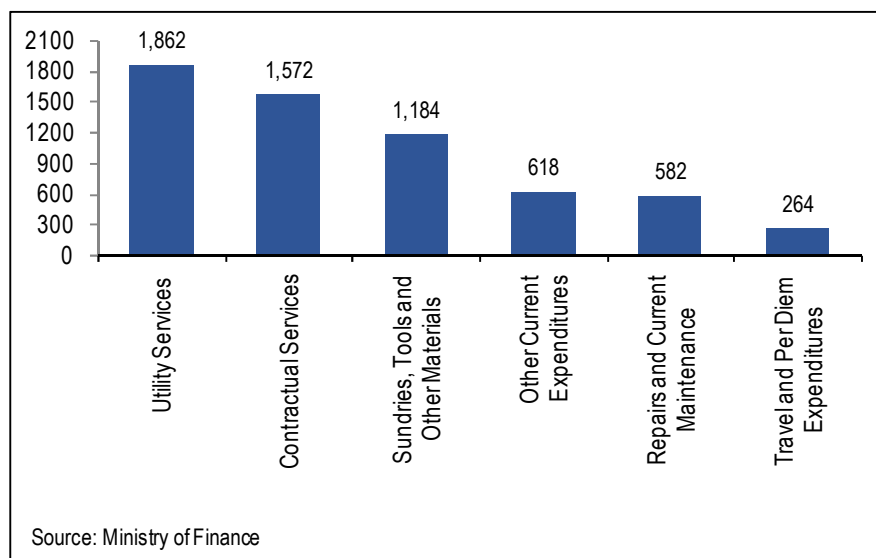
Expenditures on the basis of subsidies and transfers, amounting to Denar 16,505 million, accounted for the most in the structure of expenditures executed in this period. followed by expenditures on the basis of current transfers to extra-budgetary funds, amounting to Denar 16,350 million, wages, salaries and allowances in the amount of Denar 14,839 million, current transfers to local government units (LGUs) amounting to Denar 11,004 million, capital expenditures in the amount of Denar 6,409, social benefits amounting to Denar 6,088 million, expenditures for goods and services in the amount of Denar 6,082 million and expenditures related to interest payments in the amount of Denar 5,124 million. Chart 11 shows their percentage share in the total expenditures.

Chart 11: Structure of Executed Expenditures according to Economic Classification, January – June 2022



Realization rate in the category goods and services accounts for 47.5%. Chart 12 shows disaggregated data on executed expenditures on the basis of goods and services.

Chart 12: Expenditures Related to Goods and Services, January – June 2022 (Denar million)



Current transfers to extra-budgetary funds in the first half of 2021 accounted for 52.5% of the annual projections. Within this category, transfers to Pension and Disability Insurance Fund of North Macedonia accounted for the 82.5%, while the remaining funds were transferred to the Health Insurance Fund and the Employment Agency.

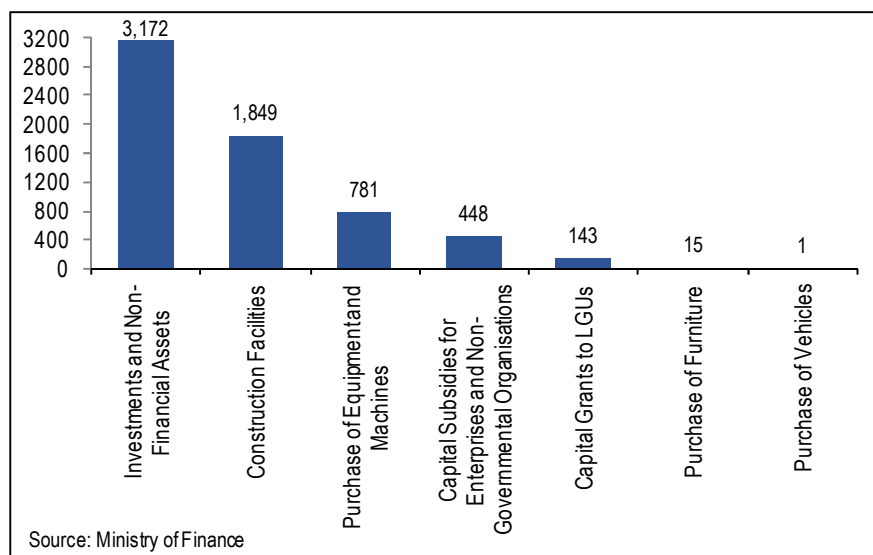
Out of the total funds projected for current transfers to LGUs in 2022, 49.3% were executed in the first half of the year. The highest amount of transfers within this category, i.e. 88.7%, was executed on the basis of block and earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

Realization rate at the “subsidies and transfers” category accounted for 63.2% in the analyzed period. Most of these expenditures, i.e. 27.8%, were paid on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development, with Denar 5,264 million of the expenditures being paid as support to Macedonian Power Plants (AD ESM), all to the end of coping with the energy crisis.

In the period January – June, expenditures on the basis of social benefits accounted for 55.3% of annual projections.

During the analyzed period, capital expenditures accounted for 25.6% of the funds projected for this purpose in 2022 Core Budget. Chart 13 shows disaggregated data on executed capital expenditures.

Chart 13: Capital Expenditures, January – June 2022 (Denar million)



In the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 4,226 million, while interest payments amounted to Denar 5,124 million. Out of the total outflows on the basis of loan repayment, outflow for repayment of principal to domestic creditors amounted to Denar 1,325 million, while Denar 2,901 million was outflows for repayment of principal to non-resident creditors. As for interest payments towards domestic creditors, Denar 1,579 million was paid, while Denar 3,545 million was paid to foreign creditors.

3.1.2 Funds' Budget Execution

Deficit of the Pension and Disability Insurance Fund of the Republic of North Macedonia amounted to Denar 1,111 million in the first half of the year. By June inclusive, revenues and inflows were collected in the amount of Denar 41,722 million, accounting for 50.8% in relation to 2022 projections, while expenditures were executed in the amount of Denar 42,833 million, i.e. 51.5% of the annual projections. Out of the total revenues, Denar 23,691 million was revenues collected on the basis of pension and disability insurance contributions (48.9% of annual projections), Denar 16,260 million was transferred from the Core Budget, Denar 682 million was revenues collected on the basis of excise duties and the remaining Denar 1,089 million was other revenues of the Fund.

As regards PDIF expenditures, pension expenditures were executed in the amount of Denar 33,268 million or 51.7% of 2022 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2022. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 5,471 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 3,842 million. Expenditures related to wages, goods and services and other costs amounted to Denar 217 million.

As of June 2022 inclusive, Health Insurance Fund deficit amounted to Denar 283 million, amid revenues collected in the amount of Denar 17,799 million, accounting for 48.3% of the annual projections, and expenditures executed in the amount of Denar 18,082 million, accounting for 49.4% of 2022 projections.

During the analyzed period, revenues collected on the basis of health insurance contributions amounted to Denar 10,284 million or 49.0% of the annual projections. Health insurance contributions for pensioners paid to the PDI Fund amounted to Denar 3,842 million, while health insurance contributions paid by the Employment Agency of RNM amounted to Denar 65 million. Transfers from the Core Budget amounted to Denar 3,348 million, revenues on the basis of co-payments were collected in the amount of Denar 223 million, while other revenues were collected in the amount of Denar 37 million. As regards expenditures, funds were spent for primary health care in the amount of Denar 15,383 million, sick leave-related costs amounted to Denar 2,056 million, expenditures for orthopedic aids were executed in the amount of Denar 283 million, while funds spent for medical treatment abroad amounted to Denar 125 million. HIF's expenditures related to wages, goods and services, as well as capital expenditures, amounted to Denar 235 million.

In the period January – June 2022, surplus of the Employment Agency of RNM amounted to Denar 541 million, amid revenues collected in the amount of Denar 1,608 million (44.0% of 2022 projections) and expenditures executed in the amount of Denar 1,067 million (29.4% in relation to the annual budget). Contributions on the basis of insurance in case of unemployment are the main revenue item, revenues thereof were collected in the amount of Denar 1,505 million, accounting for 49.0% of the annual projections.

In the first half of the year, EARNM expenditures related to unemployment benefits amounted to Denar 668 million, expenditures related to employment of disabled persons amounted to Denar 73 million, expenditures related to active employment measures amounted to Denar 112 million, while expenditures related to contributions paid for pension and health insurance for unemployed amounted to Denar 65 million. Agency's expenditures related to wages, goods and services amounted to Denar 149 million.

3.1.3 Budget Execution regarding Self-Revenue Accounts of Budget Users

Pursuant to 2022 Budget of the Republic of North Macedonia, budget deficit regarding the self-revenue accounts of the budget users (intended for self-financing activities, loans and donations) is projected in the amount of Denar 5,871 million, while the surplus realized in the analyzed period amounted to Denar 671 million.

As of June 2022 inclusive, total revenues generated on these accounts amounted to Denar 6,562 million (34.9% of 2022 projections), while expenditures were executed in the amount of Denar 5,891 million (23.9% of the annual budget). As regards the expenditures, current expenditures were executed in the amount of Denar 3,784 million or 32.6% of the annual projections, while capital expenditures were executed in the amount of Denar 2,107 million or 16.2% of the annual projections.

3.1.4 Budget Execution by Budget User⁵

Review of budget expenditures and outflows for the largest budget users is shown below, the total annual budget of which accounts for 81.9% of the total budget of all budget users (Chart 14).

In the first half of 2022, Ministry of Labour and Social Policy executed funds in the amount of Denar 26,639 million or 52.6% of its total budget projected for 2022. Thereby, most of the expenditures (68.7%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 18,303 million was spent or 53.9% of the funds allocated for 2022. The second highest expenditure category were the social benefits, participating with 22.8% in the total expenditures, whereby 55.3% (Denar 6,085 million) of the expenditures projected for 2022 was executed for this purpose.

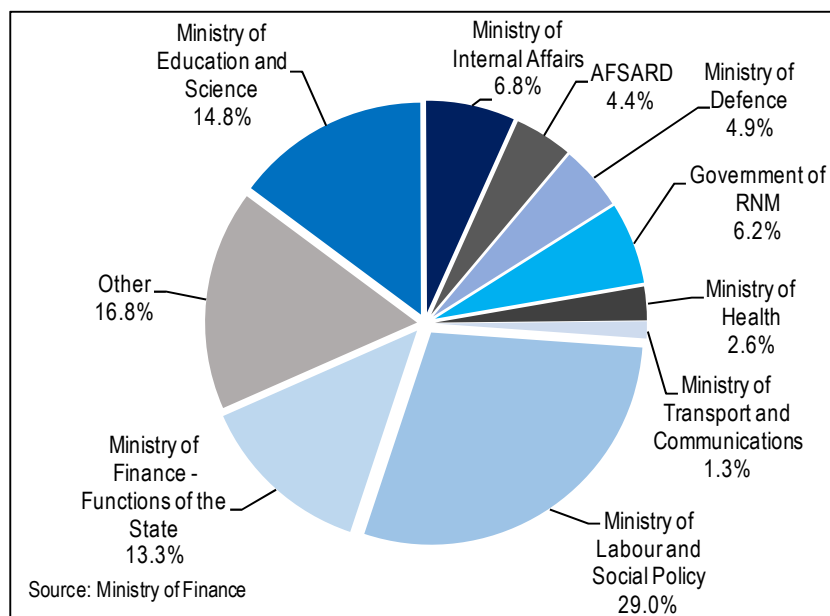
In the period January – June 2022, Denar 12,208 million, i.e. 41.6%, of the funds projected for 2022 was spent through the organizational code Ministry of Finance – Functions of the State⁶. Interest payments (Denar 5,045

⁵Detailed data on revenues and expenditures by budget users are shown in the tables at the following link: <https://finance.gov.mk/извештаи-трезор/>. Data are preliminary and non-consolidated, also including the inflows and outflows of funds.

⁶This organisational code covers the following activities: timely servicing of liabilities of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions, payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components, etc.

million) is convincingly the main category in the total expenditures of this budget user, accounting for 41.3% of its total expenditures, with 49.4% of the projected expenditures for 2022, being executed. As for repayment of principal, 30.5% of the amount for the whole year, was executed, i.e. Denar 3,485 million, accounting for 28.5% of the total expenditures. Capital expenditures were the third most significant category, accounting for 16.6%, with Denar 2,027 million being spent therefore.

Chart 14. Structure of executed expenditures and outflows per budget users, January- June 2022



In the period January- June 2022, Ministry of Education and Science spent budget funds in the amount of Denar 13,560 million (46.8% of the projections), being higher by 18.7% compared to the previous year. Current expenditures to LGUs accounted for the most of the expenditures (61.3%), with Denar 8,309 million being spent therefore or 49.6% of the total projected funds. Wages and allowances was the second most significant category, accounting for 17.0%, with Denar 2,309 million being spent therefore, i.e. 49.3% of the total projections.

During the first half of 2022, Ministry of Internal Affairs executed funds in the total amount of Denar 6,231 million, accounting for 52.2% of its 2022 Budget, being by 13.4% more compared to the previous year. Wages and allowances was the most significant expenditure item, accounting for 63.8%, with Denar 3,793 million being spent therefore or 48.4% of the projections. Goods and services was the second most significant category, accounting for 23.3%, for which Denar 1,451 million was spent, accounting for 65.9% of the annual projections.

In the period January - June 2022, Agency for Financial Support in Agriculture and Rural Development executed funds in the amount of Denar 4,048 million (65.9% of the total funds projected for 2022). Subsidies and transfers is the main category at this budget user, accounting for 90.2% of total expenditures, with Denar 3,653 million being spent therefore, i.e. 77% of the projections.

During the first half of 2022, Ministry of Defence executed budget funds in the amount of Denar 4,523 million, accounting for 33.1% of this year's budget, being higher by 22.0% compared to the previous year. Wages and allowances accounted for the most in the expenditures with 46.0%, with Denar 2,078 million (47.5% of the total projected funds) being spent therefore in the period January-June 2022. Expenditures related to goods and services accounted for 29.2% of the total expenditures, with Denar 1,319 million being spent therefore, i.e. 43.8% of the total projected expenditures, during the analyzed period.

During the first six months of 2022, Government of the Republic of North Macedonia executed funds in the amount of Denar 5,710 million, accounting for 58.3% of the projections for that year, being higher by 55.5%

compared to the previous year. Subsidies and transfers were the most significant category with 73.0%, with Denar 4,170 million being spent in the first half of 2022, i.e. 57.7% of the funds projected for 2022. Capital expenditures are the second most significant category with 22.6% with Denar 1,290 million being spent therefore or 76.1% of the funds projected for 2022.

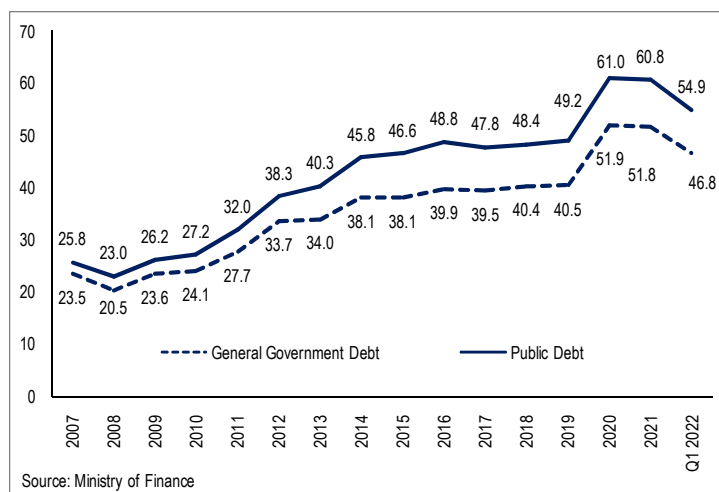
During the first half of the year, Ministry of Health executed budget funds in the amount of Denar 2,343 million (decrease by 33.0% compared to the same period in the previous year), accounting for 31.1% of total 2022 Budget. Expenditures for current transfers to extra-budgetary funds accounted for the most of the total expenditures with 48.2%, with Denar 1,129 million being spent therefor or 37.6% of the funds projected for 2022, in the period January - June 2022. Expenditures related to goods and services were the second most significant category, accounting for 42.6% of the total expenditures, with Denar 997 million being spent therefore, i.e. 31.8% of the total projected expenditures, during the analyzed period.

In the period January - June 2022, Ministry of Transport and Communications executed funds in the amount of Denar 1,187 million, accounting for 10.2% of its total 2022 budget, being higher by 13.4% compared to the previous year. Capital expenditures was the category accounting for the most of the total expenditures at this budget user, the execution of which in the first half of 2022 amounted to Denar 620 million (52.2% of total expenditures), accounting for 5.9% of the annual budget for this purpose. Denar 440 million was spent for subsidies and transfers, accounting for 61.6% of the projections for the whole year, accounting for 37.0% of the total expenditures.

3.2. Public Debt Management

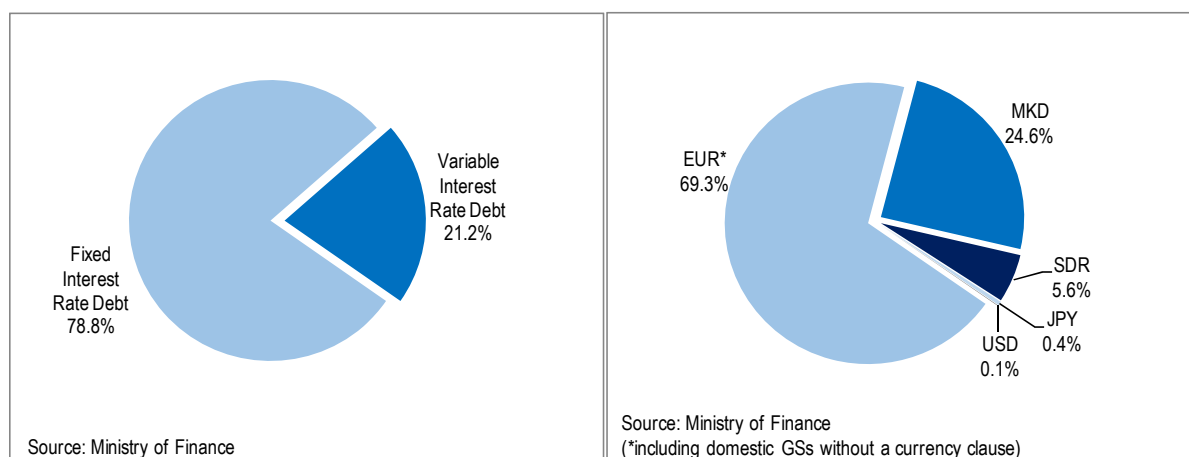
At the end of the first quarter of 2022, the general government debt of the Republic of North Macedonia amounted to EUR 6,113.4 million, i.e. 46.8% of the GDP projected for 2022, while public debt⁷ amounted to EUR 7,170.5 million, i.e. 54.9% of GDP (Chart 15). Thereby, compared to the end of 2021, share of general government debt in GDP was lower by 5 p.p., while the share of public debt thereof decreased by 5.9 p.p.. Data on the debt level imply its restabilization, to be followed upon the debt rising period, caused by the COVID-19 induced pandemic.

Chart 15. Stock of general government and public debt (% of GDP)



From the aspect of interest structure of the general government debt, at the end of the third quarter of 2022, fixed and floating interest rate ratio was 78.9: 21.2 respectively (Chart 16). From the aspect of currency composition, Denar - denominated debt accounted for 24.6% in the total general government debt portfolio, whole debt denominated in foreign currency accounted for 75.4%. Thereby, euro-denominated debt accounted for 69.3% of the total general government debt (also including domestic securities with FX clause), Special Drawing Rights accounted for 5.6%, Japanese Yen-denominated debt accounted for 0.45%, with the US dollar denominated debt accounting for 0.1%.

Chart 16. Interest (left) and currency structure of general government debt in the first quarter of 2022



⁷As per the amendments to the Law on Public Debt in May 2019 ("Official Gazette", no.98/2019), non-guaranteed debt was included in the public debt definition

In the period January- June 2022, on the domestic market, Ministry of Finance issued, on regular basis, government securities, in line with the Calendar for Issuance of GS.

In the course of the first half of 2022, "Fitch" and "Standard & Poor's" Credit Rating Agencies revised the country's credit rating.

- In April 2022, "Fitch" Credit Rating Agency affirmed the credit rating of the Republic of North Macedonia to "BB +", with negative outlook. North Macedonia's ratings are supported by favourable governance, positive business climate, as well as credible and coherent macroeconomic and financial policy consistent with the longstanding exchange rate peg to the euro and the record low inflation.
- In February 2022, "Standard & Poor's" Credit Rating Agency affirmed the credit rating of our country to BB- with stable outlook. Agency representative expects for Macedonian economy to get back to the economic growth trajectory, thus overcoming the shocks caused by the COVID-19 induced pandemic.