



**REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE**

**SEMI-ANNUAL REPORT ON EXECUTION
OF THE BUDGET OF THE REPUBLIC OF
NORTH MACEDONIA
JANUARY – JUNE 2023**

Skopje, July 2023

Summary

- During the first half of 2023, Gross Domestic Product grew by 2.1% in real terms, as a result of the positive contribution of net export and the increased consumption;
- In Q1 2023, as per the Labor Force Survey, unemployment rate accounted for 13.3% in the category 15-74 and 13.4% in the category 15-64, while unemployment rate at the youth population (15-29) was 25.7%
- In the course of 2023, inflation pursued its slow down trend, commenced at the end of last year, recording one-digit growth rate (9.3%) in June 2023, for the first time since April 2022. In cumulative terms, average inflation rate accounted for 13.6% in the first six months.
- Total budget revenues were collected in the amount of Denar 131,251 million in the period January – June, accounting for 46.5% of the amount projected for 2023, increasing by 12.8% compared to the first half of the previous year;
- Total budget expenditures were executed in the amount of Denar 154,846 billion in the period January – June 2023, accounting for 47.7% of the annual projections, increasing by 22.3% compared to the first half of the previous year;
- In the period January – June 2023, the state budget deficit amounted to Denar 23,595 million, accounting for 2.7% of the projected deficit, i.e. 1.9% of the GDP projected for 2023;
- At the end of the first quarter of 2023, government debt of the Republic of North Macedonia accounted for 50.0% of GDP, while public debt accounted for 57.5% of GDP.

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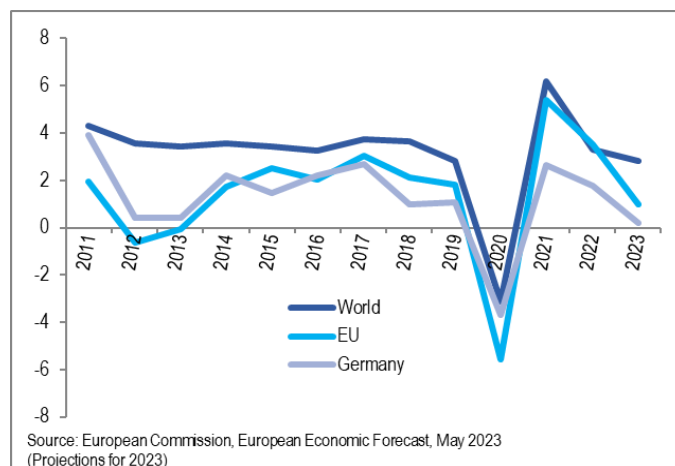
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1. International Economic Trends¹

During 2023, global economic performance is accompanied by uncertainty due to the high inflation lasting for a longer period of time, turbulences in the financial sector and geopolitical tensions. European Union, as our major trading partner, proved to be more resilient to the unfavorable global developments than the expectations. Despite the fear from recession, in the first half of the year, the European economy grew by 1.2% on annual basis, amidst lower prices of energy and favorable trends on the labor market. On the other hand, Germany, as a leading economy, recorded minimum 0.2% drop. Adverse effects of the armed conflict in Ukraine have been limited, as result of the diversification of the energy supply and reduced gas consumption. Inflation remained high, in particular the core inflation, which will trigger additional tightening of the financing conditions. However, upon the peak reached at the end of 2022, inflation continuously decreased during 2023, amid favourable trends at energy prices. On the labor market, unemployment in the EU recorded historic low level, accounting for 6.0% in March, while employment was at all-time record high level.

In line with the most recent forecasts of the European Commission, in 2023, European economy is to grow by 1.0%, being an upward revision compared to the Autumn projections on growth of 0.3% and 1.1% growth in the Eurozone. In Germany, as the largest economy within the EU and our most important trading partner, the economic activity growth is projected at 0.2%, as opposed to the projected drop of 0.6% in the Autumn Report. In 2023, global economy is expected to pick up by 2.8% (Chart 1).

Chart 1. Global Economic Growth (%)



Risks as regards the projections are numerous, mostly downwards. Persistent inflation would additionally limit the household purchase power, thus implying even stronger response as regards the monetary policy. In addition, new disruptions in the financial sector would cause significantly greater resistance against the risks and the reduced lending. In addition, the expansionary fiscal policy would fuel inflation even more, and new challenges related to geopolitical developments are also possible. Possibility for more favourable trends at energy prices is another upward risk, which would reduce inflation and positively affect domestic demand.

2. Macroeconomic Trends in the Country²

2.1. Economic Activity

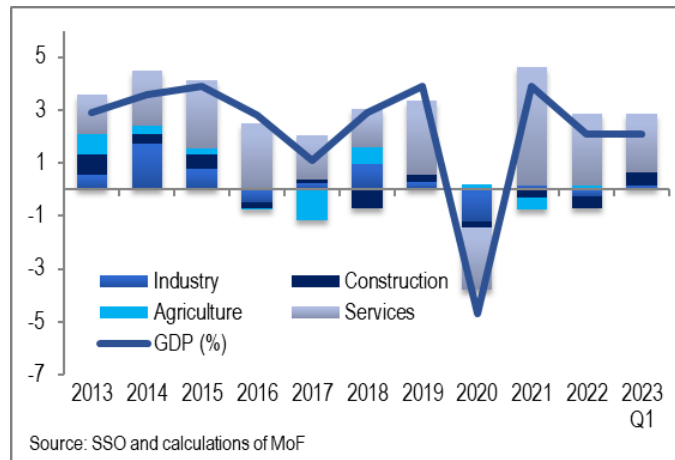
In the first half of 2023, Gross Domestic Product (GDP) recorded annual 2.1% growth in real terms, by which the economic activity intensified upon the 0.6% increase in the previous quarter.

¹Analysis in this section is based on the Spring Report of the European Commission "European Economic Forecast", published in May 2023.

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 2023 inclusive.

Analyzed by activity, economic growth in Q1 2023 was a result of the positive performance at all activities. Activity in the services sector, as a whole, picked up by 3.6% in the first quarter, mostly as a result of the favorable trends in the activities Trade, transport and hospitality industry by 10.6%, financial and insurance activities by 4.7% and Information and communications by 3.8%. Favourable trends in the field of trade, although with slower pace, continued in the period April-May with average nominal growth of 6.6% amidst increased trade in all segments.

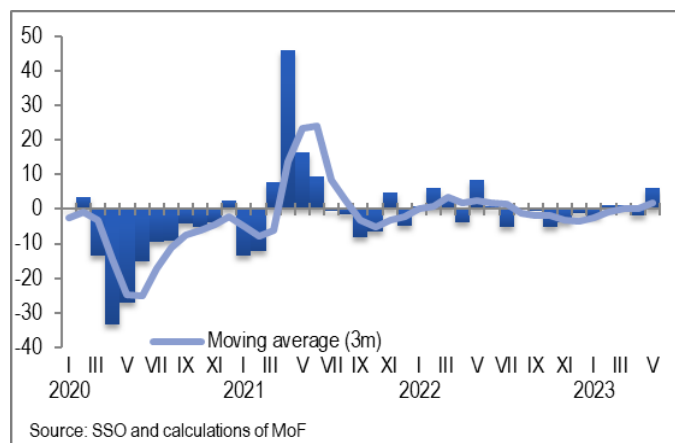
Chart 2. Economic Growth Structure According to Production Method (contribution to growth, percentage points)



Construction sector recorded double-digit 12.7% growth in the first three months (following the drop for seven quarters in a row), which as per the high-frequency data, is due to the growth in both segments, i.e. building and civil engineering structures. Agriculture registered minimum growth of 0.1%, following the 0.9% drop in the previous quarter, by which variable trends in this sector continued.

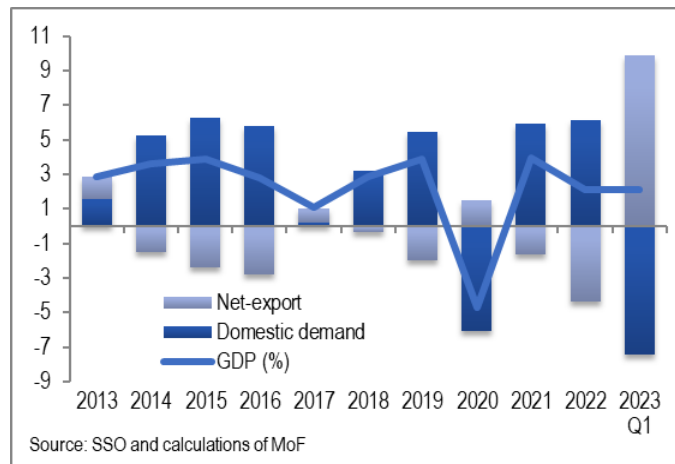
During the first quarter, activity in the industrial sector grew by 0.8%. In line with the monthly data, industrial production experienced gradual recovery, experiencing annual 6.1% growth in May 2023, as a result of the increased production in all sectors, such as: Mining by 8.6%, Manufacturing by 5.3% and energy sector by 4.0%. Growth of industrial production, accounting for 1.0% in the first five months, was mostly curbed by the reduced manufacture of metals and metal products, due to the low prices of metals, above all nickel, and the still high costs for their manufacture, as well as Manufacture of food and electrical equipment. On the other hand, Manufacture of electricity experienced high growth (25.5%) as a result of the efforts put in increasing domestic production amidst energy crisis.

Chart 3. Annual Growth of Industrial Production (%)



Analyzed according to the expenditure side of GDP, economic activity growth in the first quarter was a result of the positive contribution of net-export on the economic growth, as well as the consumption growth. Gross investments dropped by 22.3% due to the high comparative basis in Q1 2022 (31.8% growth), mostly as a result of the increase of inventories during this period, in times of great uncertainty caused by the armed conflict in Ukraine and the energy crisis. Consumption recorded a 1.0% growth in real terms, under which private consumption supported by the growth of wages, remittances, as well as the solid credit activities, increased by 2.7%, while public consumption dropped by 5.9% in real terms.

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



During the same period, export of goods and services picked up by 7.1% in real terms, which was mostly a result of the boosted export of machinery and transport equipment, mineral oils and lubricants, as well as chemical products. Import of goods and services experienced 4.3% drop in real terms, hence net export positively contributed to the economic growth. Drop of import was due to the reduced import of intermediary goods by 7.4%, which is, to a great extent, a result of the base effect, given that import was significantly boosted in Q1 2022 as a result of the increased import of intermediary goods and raw materials, thus contributing to increased inventories during this period (Chart 4). Thus, in the first five months of 2023, reduction in the foreign trade by 2.1% was registered, resulting from the drop of import of goods by 7.5%, while export of goods increased by 6.0% in nominal terms, which contributed to decreased trade deficit by 35.6%.

Against such background, domestic economy has shown great resilience to the subsequent shocks induced by global factors. Prompt response to fiscal policy eased, to a great extent, the impact of these shocks. Upon the solid post-pandemic recovery in 2021, growth of domestic economy in 2022, was largely hindered by the global developments triggered by the energy crisis and the conflict in Ukraine, contributing to slowed down economic recovery. From the very beginning of the crisis, and as a continuation of the measures designed for support and recovery during the post-pandemic period, the Government, responded timely, by adopting a new set of measures, to the end of slowing down the spillover effect of the imported inflation, thus ensuring full and stable supply of electricity and avoiding the price shocks. The measures were targeted at the vulnerable categories of citizens and businesses affected by the crisis, with the main objectives being to protect the living standard, maintain companies' liquidity and support investments in energy efficiency and renewable energy sources, all to the end of ensuring energy stability in the long term.

During 2023, the economic activity will be accompanied by the high level of uncertainty due to the prolonged armed conflict in Ukraine, the geopolitical tensions, the high level of inflation persisting for a long period of time, the tightened financing conditions of the central banks and the increased risks in the financial sector triggered by the recent turbulences in the banking sector. Although assessments on global, primarily European growth are insignificantly improved, they further remained low. Thereby, economic activity is expected to slow down in Germany as the largest European economy and our major trading partner. Such events are

expected to adversely affect the foreign demand, as well as the domestic demand, i.e. investments in fixed assets and consumption.

In 2023, economic growth is projected at 2.5%, whereby investments will play significant role in supporting the economic activity. Gross investments are projected to experience real growth of 5.1% in 2023, amid expected growth of both public and private investments. Commencement of construction of Corridors 8 and 10d as the major infrastructure projects, accompanied by mechanisms for their realization, is expected to provide for maintaining the gross investments at solid level, thus being driving force of the economic activity. Substantial impetus on the growth of investments is also expected from the great interest in investing in renewable energy sources from domestic and foreign companies as a response to the energy crisis, which will accelerate the process towards a green transition largely supported by the Government's measures. Consumption is also envisaged to support domestic demand growth. Private consumption is projected to pick up by 2.0% real terms, with growth of public consumption projected at 0.5%.

Table 1. Comparison of Economic Growth and Inflation Forecasts for 2023 (%)

	Economic growth	Inflation
Ministry of Finance	2.5	8.9
IMF	2.1	9.2
World Bank	2.4	9.1
European Commission	2.0	7.9
EBRD	2.0	/
Fitch Ratings	2.2	8.3
National Bank of RNM	2.1	8.0-9.0

Source: IMF (World Staff Concludes Visit to North Macedonia, June 2023), World Bank (Western Balkans Regular Economic Report, May 2023), European Commission (European Economic Forecast, May 2023), EBRD (Regional Economic Prospects, May 2023), Fitch Ratings (April 2023), National Bank of RNM (Quarterly Report, May 2023).

2.2. Labor Market

Unemployment rate³ in Q1 2023, in line with the data from the Labor Force Survey, at the category aged 15-74, accounted for 13.3%, 13.4% at the category 15-64, whereby unemployment rate at youth (15-29) accounts for 25.7%.

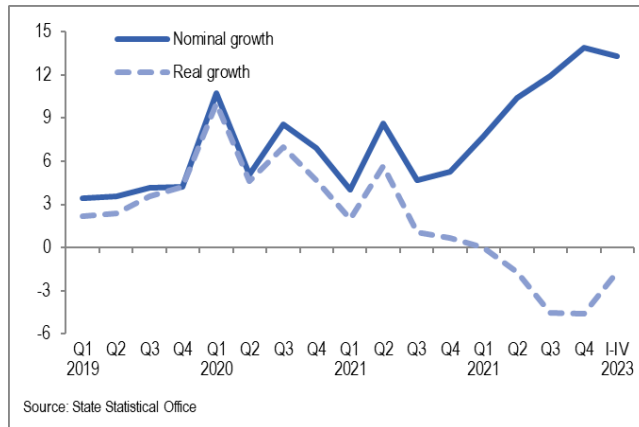
In Q1 2023, the unemployment rate in the 15-64 category accounted for 56.5%, while accounting for 45.1% at the category 15-89. As for people at the age of 15 up to 29 years, unemployment rate was lower, accounting for 33.4%.

Total active population aged 15-89 years was 787,645 people, accounting for 52.0% of the total working-age population. As regards the category 15-64, activity rate accounted for 65.2%, while at the youth population aged 15 to 29 years, accounted for 44.9%.

During the four months of 2023, wages recorded average 13.3% growth in nominal terms (Chart 5). During this period, growth of average increase was recorded in all sectors, whereby most evident growth was seen in the field of construction, hospitality industry, transport and storage, education, administrative, auxiliary and services, information and communications, as well as activities in the industrial and agricultural sectors.

³Data on Q1 2023 are not comparable with the data from the previous years, given that new Regulation EU no. 2019/1700 2019/1700 of the European Parliament and the Council of Social Statistics and the corresponding executive regulation of the Commission (EU) no. 2019/2240 for the area labor force, was implemented in 2023, while the previous Regulation (EC) no. 577/98 has been repealed. These changes caused interruption of the time series of data.

Chart 5. Increase of Average Net Wage (%)

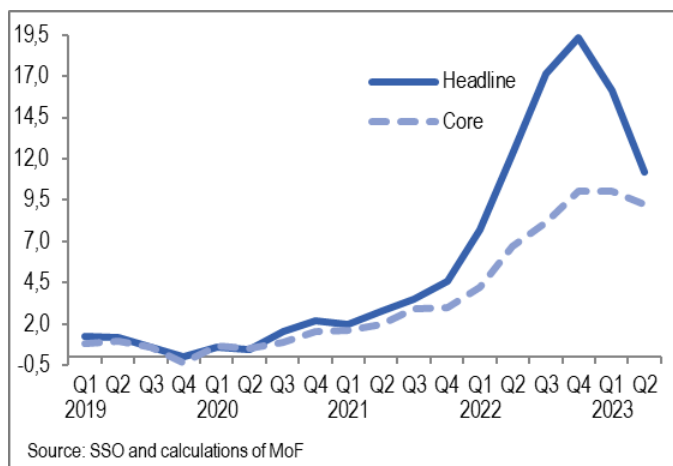


2.3. Inflation and Monetary Trends

In the course of 2023, inflation pursued its slow down trend, commenced at the end of last year, recording one-digit growth rate (9.3%) in June 2023, for the first time since April 2022. In cumulative terms, average inflation rate accounted for 13.6% in the first six months.

Upon the high inflation in 2022, as a result of the price disruptions caused by the higher price surge and the armed conflict in Ukraine, in 2023, prices of food and energy sources on the global stock markets dropped, thus also reflecting on the domestic economy, although with slower dynamics compared to the Eurozone. Prices of food mostly contributing to the increase of prices in the first half of 2023, picked up by 19.4%, whereby food remained main driving force of increase of living costs, however, with significantly slowed down growth on annual basis (12.1% in June), as well as reduced contribution to the overall inflation. Reduction was recorded at oil derivatives, being in line with the trends on global stock markets. In the first half of 2023, core inflation accounted for 9.7%, whereby pressure therefrom is expected to be maintained during the summer as well, although gradual slowdown was registered in May and June already.

Chart 6. Headline and Core Inflation (%)



In the first half of 2023, National Bank kept pursuing tightened monetary policy due to the inflationary performance, combined with the uncertain external surrounding imposing further caution, all to the end of stabilizing the inflation on a longer-term basis.

In the period January - June 2023, the National Bank increased its policy rate at four occasions, i.e. by 1.25 p.p., from 4.75% to 6.0%.

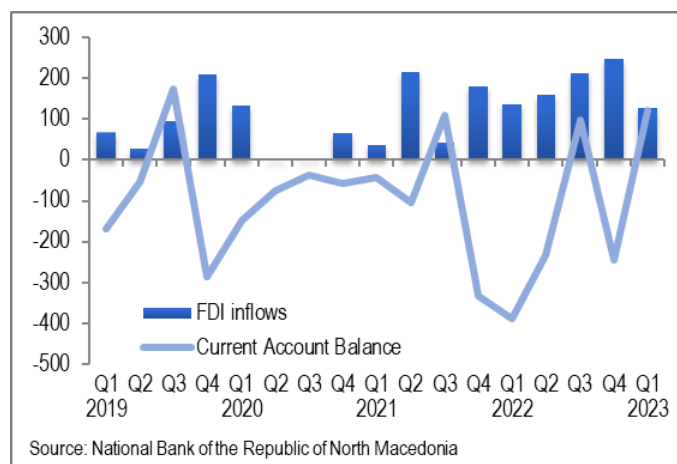
In May 2023, total credits grew by 6.5% amid growth of both credits to households and credits to enterprise by 6.5% each.

Total deposit potential in May 2023 grew by 10.7% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 12.7% and 8.2% respectively, compared to the same month in the previous year. From sector point of view, this month, deposits of enterprises grew by 17.8%, while deposits of households increased by 8.7%, on annual basis.

2.4. Balance of Payments

Balance of payments current account recorded surplus in the amount of EUR 122.5 million in the first half of 2023, compared to the deficit amounting to EUR 388.8 million compared to the same period last year, mostly due to the increased inflow of current transfers within the secondary income account and the increased surplus on the services account, as well as the reduced trade deficit. Inflow of foreign direct investments (FDIs) amounted to EUR 126.5 million, due to the inflow on the basis of reinvested earnings and equity, while outflow was recorded at debt instruments.

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



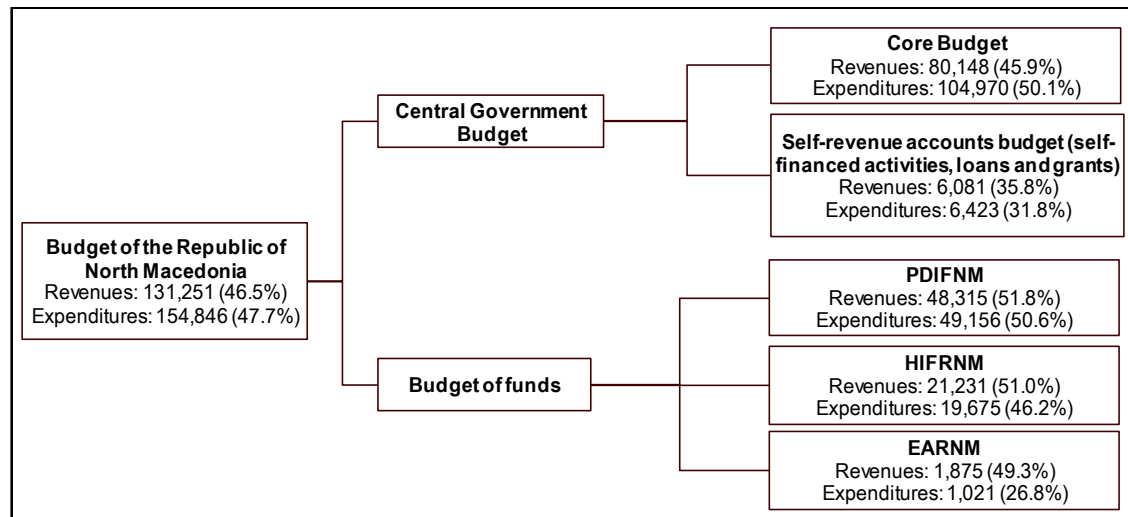
Reserve assets amounted to EUR 4.2 billion in May 2023, providing for 4.1-month coverage of import of goods and services in the coming 12-month period, being at an adequate level to conduct the monetary policy.

3. Fiscal Sector

3.1 Budget of the Republic of North Macedonia

Under 2023 Budget of the Republic of North Macedonia, total revenues and total expenditures are projected in the amount of Denar 282,052 million and Denar 324,810 million respectively, i.e. deficit is projected in the amount of Denar 42,759 million (Core Budget deficit amounting to Denar 34,765 million, Funds' deficit amounting to Denar 4,771 million and self-revenue accounts deficit amounting to Denar 3,223 million).

Chart 8. Scheme of the Budget of RNM - performance (Denar million) and execution rate (%) in the first half of 2023



Total budget revenues were collected in the amount of Denar 131,251 million, accounting for 46.5% of the projected amount for 2023, being an increase by 12.8% compared to the total budget revenues collected in the same period in 2022 (Table 2). As regards total revenues, Denar execution rate accounted for 46.7% of the amount projected for 2023, being 10.4% increase in relation to the previous year. Thereby, tax revenues were collected in the total amount of Denar 73.248 million⁴ (i.e. 45.1% of the amount projected for 2023), while social contributions were collected in the amount of Denar 43,887 million (annual increase of 20.7%, i.e. 49.8% of the amount projected for 2023). As regards tax revenues, increased collection was recorded at personal income tax by 15.2%, followed by import duties by 10.0%, with other tax revenue collection picking up by 9.0%, collection of excise duties increasing by 8.4%, profit tax surging by 7.5%, while VAT collection experienced 0.1% drop.

Total budget expenditures were executed in the amount of Denar 154,846 million in the period January – June 2023, accounting for 47.7% of the annual projections, i.e. increase of 22.3% compared to the first half of 2022. Thereby, current expenditures were executed in the amount of Denar 132,928 million, i.e. 48.2% of the amount projected for the whole year, being an increase of 12.5% compared to the same period in 2022. Increase was registered at interest payments of 30.5%, expenditures related to goods and services of 9.3% and expenditures related to wages and allowances of 9.0%. Transfers, as the largest category of current expenditures, increased by 12.4%, driven by the high growth of subsidies and transfers by 5.9%, as well as VAT grants by 45.4%. However, as regards transfers, social transfers surged by 12.4%. Capital expenditures were executed in the amount of Denar 21,918 million, being higher by 156.9% compared to the same period in 2022. Execution rate of capital expenditures accounted for 45% in the first half compared to the initial adopted Budget.

⁴Self-revenue accounts amounting to Denar 586 million are also included

Table 2. Budget Execution for the period January – June 2023

	Budget 2023	January - June 2023		
	in denar million	in denar million	yearly growth rate	execution rate
TOTAL REVENUES	282.052	131.251	12,8%	46,5%
Taxes and Contributions	250.689	117.135	10,4%	46,7%
Taxes	160.330	73.248	5,5%	45,4%
Personal Income Tax	26.500	12.504	15,2%	47,2%
Profit Tax	14.700	9.712	7,5%	66,1%
VAT	78.500	31.844	-0,1%	40,6%
Excises	29.200	12.958	8,4%	44,4%
Import Duties	10.700	5.304	10,0%	49,6%
Other Taxes	730	926	9,0%	46,7%
Contributions	88.089	43.887	20,7%	49,8%
Non Tax Revenues	19.894	7.783	0,5%	39,1%
Capital Revenues	2.800	383	-51,4%	13,7%
Foreign Donations	8.669	5.950	255,0%	68,6%
Revenues from repayment of loans	0	0	/	/
TOTAL EXPENDITURES	324.810	154.846	22,3%	47,7%
Current Expenditures	276.059	132.928	12,5%	48,2%
Wages and Allowances	34.880	17.164	9,0%	49,2%
Goods and Services	23.631	9.569	9,3%	40,5%
Transfers	204.625	99.508	12,4%	48,6%
Social Transfers	144.951	71.293	12,4%	49,2%
Pensions Fund	86.799	44.079	14,1%	50,8%
Unemployment Benefits	2.976	751	-3,7%	25,2%
Social Benefits	13.111	7.044	13,5%	53,7%
Health Care	42.064	19.419	9,1%	46,2%
Other Transfers	58.235	27.148	12,4%	46,6%
Interest	12.923	6.687	30,5%	51,7%
Capital Expenditures	48.751	21.918	156,9%	45,0%
BUDGET BALANCE	-42.759	-23.595	128,0%	55,2%

Source: Ministry of Finance

In the period January – June 2023, budget deficit amounted to Denar 23,595 million, accounting for 2.7% of 2023 projected GDP, i.e. 55.2% of the annual projections (Table 2). Within the Budget of the Republic of North Macedonia, Core Budget deficit amounted to Denar 24,822 million, surplus of the Funds amounted to Denar 1,569 million, and surplus on the self-revenue accounts in the amount of Denar 342 million.

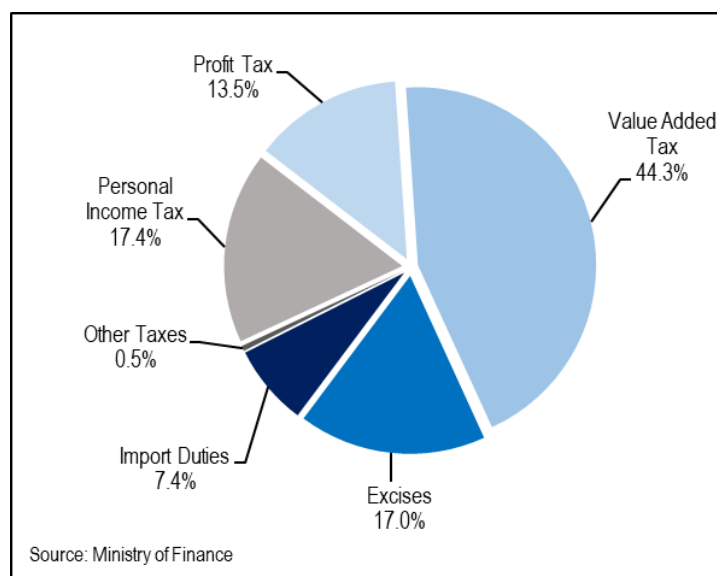
3.1.1 Execution of the Core Budget

Total Core Budget revenue collection amounted to Denar 80,148 million in the period January – June 2023, accounting for 45.9% of the total revenues projected for 2023 in the amount of Denar 174,671 million.

Tax revenues, being the highest revenue item within the total revenues, were collected in the amount of Denar 71,961 million, i.e. 45.3% of the annual projections, while non-tax and capital revenues were collected in the amount of Denar 3,580 million or 33.4% of the revenues projected for the whole year.

Structure of collected tax revenues showed that VAT revenues accounted for the most with Denar 31,844 million or 44.3% of the total tax revenues (Chart 9), followed by revenues on the basis of PIT collected in the amount of Denar 12,504 million, revenues on the basis of excise duties in the amount of Denar 12,257 million, profit tax revenues collected in the amount of Denar 9,712 million, revenues on the basis of import duties in the amount of Denar 5,304 million and other tax revenues in the amount of Denar 340 million.

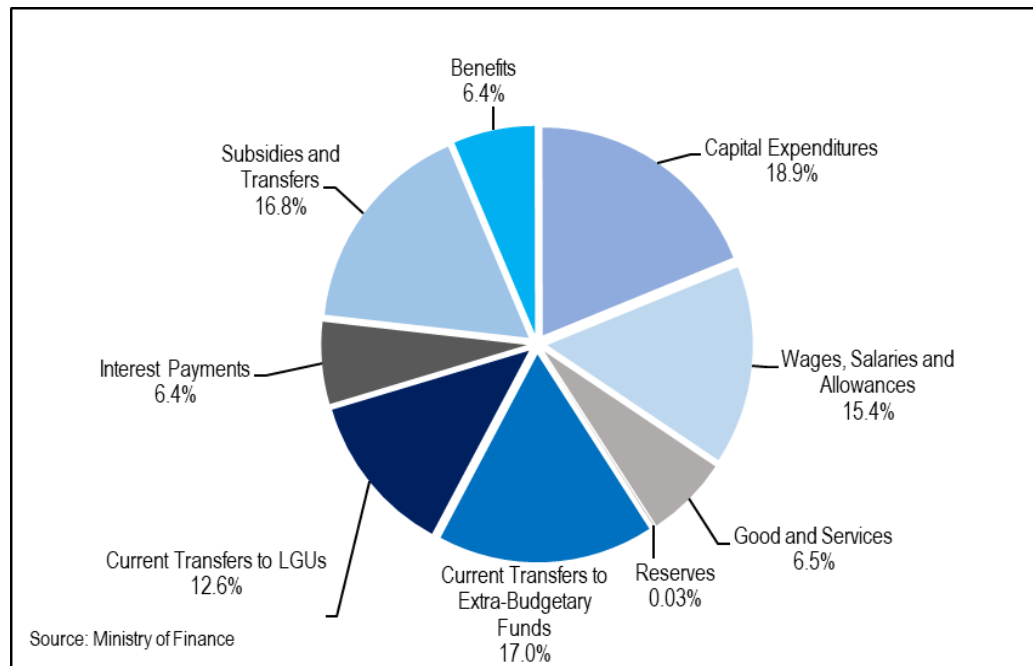
Chart 9: Structure of Collected Tax Revenues, January – June 2023



Total Core Budget expenditures were executed in the amount of Denar 104.970 million in the period January – June 2023 or 50.1% of the total funds projected under the 2023 Core Budget.

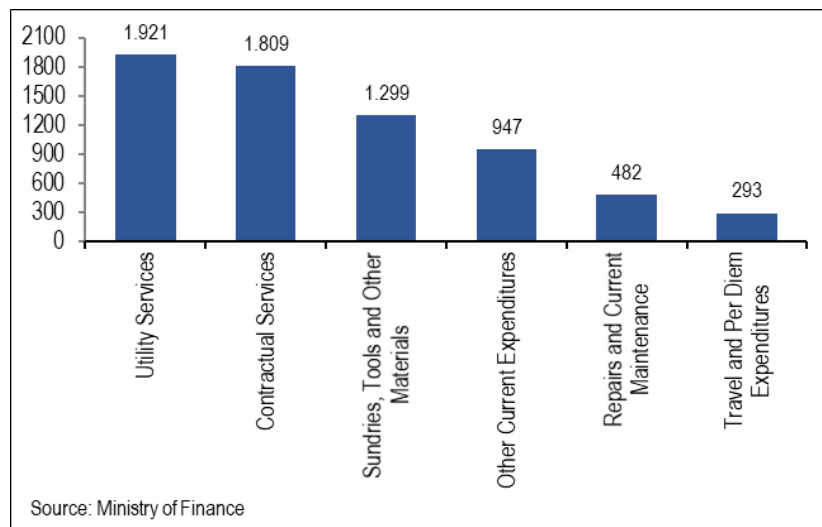
Capital expenditures, amounting to Denar 19,855 million, accounted for the most in the structure of expenditures executed in this period. followed by expenditures on the basis of current transfers to extra-budgetary funds, amounting to Denar 17,833 million, subsidies and transfers in the amount of Denar 17,635 million, wages and allowances amounting to Denar 16,210 million, current transfers to local government units (LGUs) amounting to Denar 13,211 million, expenditures for goods and services in the amount of Denar 6,802 million, social benefits amounting to Denar 6,709 million and expenditures related to interest payments in the amount of Denar 6,687 million. Chart 10 shows their percentage share in the total expenditures.

Chart 10: Structure of Executed Expenditures according to Economic Classification, January – June 2023



Realization rate in the category goods and services accounts for 41.7%. 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 2023 (Denar million)



Current transfers to extra-budgetary funds in the first half of 2021 accounted for 5.7% 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.

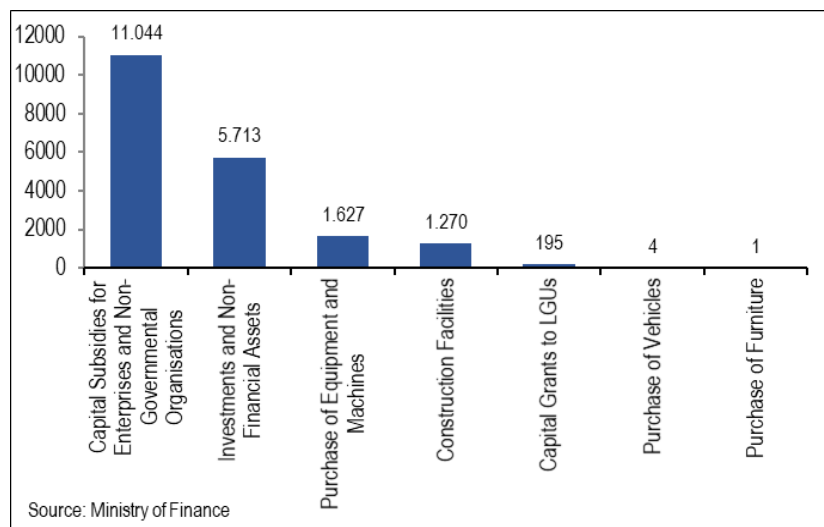
Out of the total funds projected for current transfers to LGUs in 2023, 49.5% were executed in the first half of the year. The highest amount of transfers within this category, i.e. 86.3%, was executed on the basis of block and earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

Execution rate at the “subsidies and transfers” category accounted for 45.9% in the analyzed period. Most of these expenditures, i.e. 5,694 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 53.7% of annual projections.

During the analyzed period, capital expenditures accounted for 52.3% of the funds projected for this purpose in 2023 Core Budget. Chart 12 shows disaggregated data on executed capital expenditures.

Chart 12: Capital Expenditures, January – June 2023 (Denar million)



In the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 7,862 million, while interest payments amounted to Denar 6,687 million. Out of the total outflows on the basis of loan repayment, outflow for repayment of principal to domestic creditors amounted to Denar 5,416 million, while Denar 2,446 million was outflows for repayment of principal to non-resident creditors. As for interest-related payments towards domestic creditors, Denar 1,795 million was paid, while Denar 4,892 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 841 million in the first half of the year. By June inclusive, revenues and inflows were collected in the amount of Denar 48,315 million, accounting for 51.8% in relation to 2023 projections, while expenditures were executed in the amount of Denar 49,156 million, i.e. 50.6% of the annual projections. Out of the total revenues, Denar 29,658 million was revenues collected on the basis of pension and disability insurance contributions (49.1% of annual projections), Denar 17,786 million was transferred from the Core Budget, Denar 701 million was revenues collected on the basis of excise duties, Denar 10 million as revenues from dividends, and the remaining Denar 160 million was other revenues of the Fund.

As regards PDIF expenditures, pension expenditures were executed in the amount of Denar 37,541 million or 50.1% of 2023 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2023. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 6,538 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 4,807 million. Expenditures related to wages, goods and services and other costs amounted to Denar 224 million.

As of June 2023 inclusive, Health Insurance Fund deficit amounted to Denar 1,556 million, amid revenues collected in the amount of Denar 21,231 million, accounting for 51% of the annual projections, and expenditures executed in the amount of Denar 19,675 million, accounting for 46.2% of 2023 projections.

During the analyzed period, revenues collected on the basis of health insurance contributions amounted to Denar 12,409 million or 51.04% of the annual projections. Health insurance contributions for pensioners paid to the PDI Fund amounted to Denar 4,807 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 3,698 million, revenues on the basis of co-payments were collected in the amount of Denar 211 million, while other revenues were collected in the amount of Denar 45 million. As regards expenditures, funds were spent for primary health care in the amount of Denar 16,673 million, sick leave-related costs amounted to Denar 2,284 million, expenditures for orthopedic aids were executed in the amount of Denar 285 million, while funds spent for medical treatment abroad amounted to Denar 177 million. HIF's expenditures related to wages, goods and services, as well as capital expenditures, amounted to Denar 256 million.

In the period January – June 2023, surplus of the Employment Agency of RNM amounted to Denar 854 million, amid revenues collected in the amount of Denar 1,875 million (49.3% of 2023 projections) and expenditures executed in the amount of Denar 1,021 million (26.8% 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 1,820 million, accounting for 53.7% of the annual projections.

In the first half of the year, EARNM expenditures related to unemployment benefits amounted to Denar 644 million, expenditures related to employment of disabled persons amounted to Denar 55 million, expenditures related to active employment measures amounted to Denar 107 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 154 million.

3.1.3 Budget Execution regarding Self-Revenue Accounts of Budget Users

Pursuant to 2023 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 3,223 million, while the surplus realized in the analyzed period amounted to Denar 342 million.

As of June 2023 inclusive, total revenues generated on these accounts amounted to Denar 6,081 million (35.8% of 2023 projections), while expenditures were executed in the amount of Denar 6,423 million (31.8% of the annual budget). As regards the expenditures, current expenditures were executed in the amount of Denar 4,388 million or 45.6% of the annual projections, while capital expenditures were executed in the amount of Denar 2,035 million or 19.3% 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 86.3% of the total budget of all budget users (Chart 13).

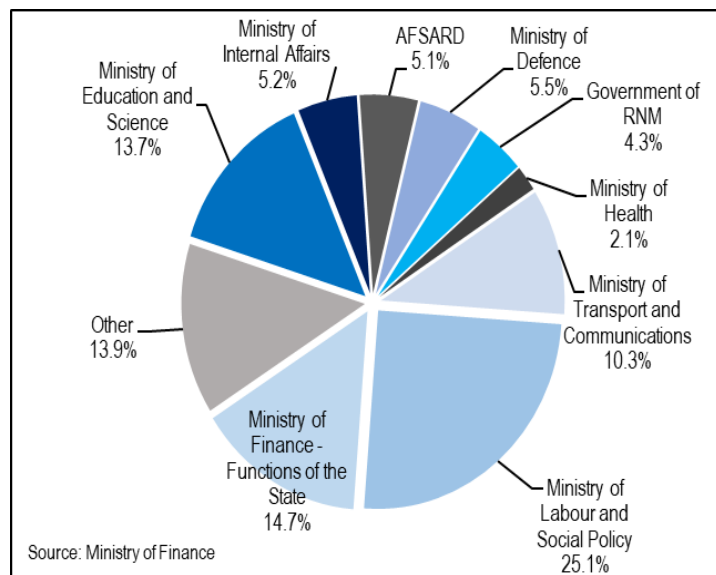
In the first half of 2023, Ministry of Labor and Social Policy executed funds in the amount of Denar 29,502 million or 55.3% of its total budget projected for 2023. Thereby, most of the expenditures (67.6%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 19,931 million was spent or 57.1% of the funds allocated for 2023. The second highest expenditure category were the social benefits, participating with 23.6% in the total expenditures, whereby 54.7% (Denar 6,941 million) of the expenditures projected for 2023 was executed for this purpose.

In the period January – June 2022, Denar 17,294 million, i.e. 23.3% of the funds projected for 2023 was spent through the organizational code Ministry of Finance – Functions of the State⁶. Principal repayment (Denar

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

7,675 million) is convincingly the main category in the total expenditures of this budget user, accounting for 44.4% of its total expenditures, with 14.8% of the projected expenditures, being executed. As for repayment of principal, 38.8% of the amount for the whole year, was executed, i.e. Denar 5,012 million, accounting for 29% of the total expenditures. Capital expenditures were the third most significant category, accounting for 10.5%, with Denar 1,813 million being spent therefor.

Chart 13. Structure of executed expenditures and outflows per budget users, January – June 2023



In the period January– June 2023, Ministry of Education and Science spent budget funds in the amount of Denar 16,136 million (50.5% of the projections), being higher by 19.0% compared to the previous year. Current transfers to LGUs accounted for the most of the expenditures (59.7%), Denar 9,617 million being spent therefor or 49.78% of total projected funds. Wages and allowances was the second most significant category, accounting for 16.2%, with Denar 2,612 million being spent therefor, i.e. 49.8% of the total projections.

During the first half of 2023, Ministry of Internal Affairs executed funds in the total amount of Denar 6,123 million, accounting for 48.08% of its 2023 Budget, being by 1.7% more compared to the previous year. Wages and allowances were the highest expenditure category, participating with 67.1%, Denar 4,107 million being spent therefor, accounting for 47.87% of the projected ones. Goods and services was the second most significant category, accounting for 22.9%, for which Denar 1,395 million was spent, accounting for 57.8% of the annual projections.

In the period January – June 2023, Agency for Financial Support in Agriculture and Rural Development executed funds in the amount of Denar 5,996 million (68.1% of the total funds projected for 2023). Subsidies and transfers is the main category at this budget user, accounting for 95% of total expenditures, with Denar 5,694 million being spent therefor, i.e. 77% of the projections.

During the first half of 2023, Ministry of Defence executed budget funds in the amount of Denar 6,403 million, accounting for 37.6% of this year's budget, being higher by 41.7% compared to the previous year. Wages and allowances accounted for the most in the expenditures with 46.6%, with Denar 2,597 million (51.9% of the total projected funds) being spent therefor in the period January–June 2023. Expenditures related to goods and

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

services accounted for 22.6% of the total expenditures, with Denar 1,446 million being spent therefore, i.e. 39.6% of the total projected expenditures, during the analyzed period.

During the first six months of 2023, Government of the Republic of North Macedonia executed funds in the amount of Denar 5,106 million, accounting for 28.4% of the projections for that year, being lower by 10.6% compared to the previous year. Capital expenditures are the second most significant category with 78.7% with Denar 4,018 million being spent therefore or 77.8% of the funds projected for 2023. Subsidies and transfers were the most significant category with 14%, with Denar 711 million being spent in the first half of 2023, i.e. 6.1% of the funds projected for 2023.

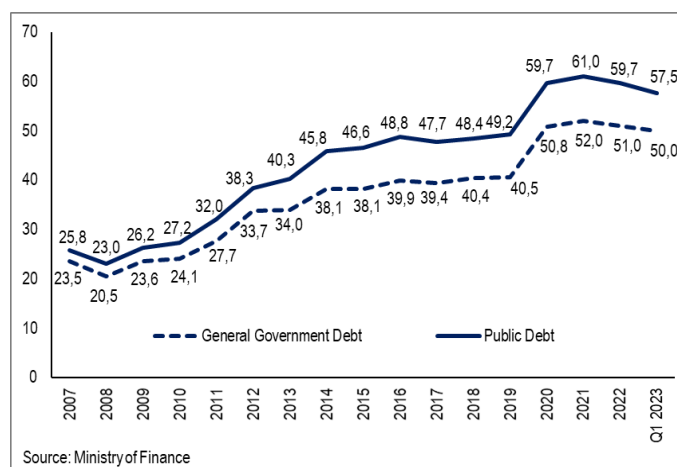
In the first half of the year, Ministry of Health executed budget funds in the amount of Denar 2,452 million (4.6% increase in relation to the same period in the previous year), accounting for 35.3% of its total 2023 budget. Expenditures for current transfers to extra-budgetary funds accounted for the most of the total expenditures with 52.2%, with Denar 1,279 million being spent therefor or 42.6% of the funds projected for 2023, in the period January - June 2023. Expenditures related to goods and services were the second most significant category, accounting for 38.2% of the total expenditures, with Denar 938 million being spent therefore, i.e. 29.5% of the total projected expenditures, during the analyzed period.

In the period January – June 2023, Ministry of Transport and Communications executed funds in the amount of Denar 12,071 million, accounting for 60.5% of its total 2023 budget, being higher by 916.8% 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 2023 amounted to Denar 11,537 million (95.6% of total expenditures), accounting for 61.3% of the annual budget for this purpose. Denar 370 million was spent for subsidies and transfers, accounting for 58.5% of the projections for the whole year, accounting for 3.1% of the total expenditures.

3.2. Public Debt Management

At the end of the first quarter of 2023, the general government debt of the Republic of North Macedonia amounted to EUR 7,201.9 million, i.e. 50.0% of the GDP projected for 2023, while public debt⁷ amounted to EUR 8,275.0 million, i.e. 57.5% of GDP (Chart 14). Thereby, compared to the end of 2022, share of general government debt in GDP was lower by 1 p.p., while the share of public debt thereof decreased by 2.2 p.p.. Data on the debt level imply its re-stabilization, to be followed upon the debt rising period, caused by the COVID-19 induced pandemic.

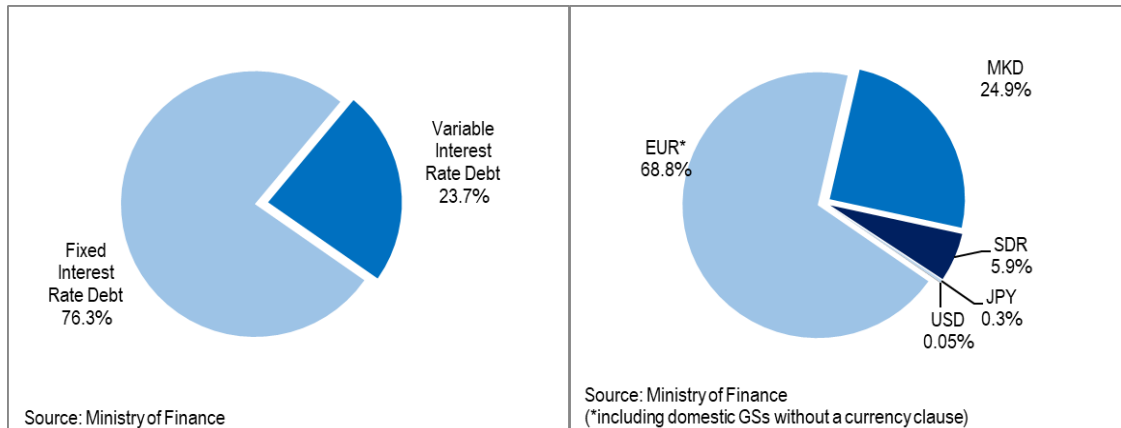
Chart 14. Stock of general government and public debt (% of GDP)



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.

From the aspect of interest structure of the general government debt, at the end of the third quarter of 2023, fixed and floating interest rate ratio was 76.3: 23.7 respectively (Chart 15). From the aspect of currency composition, Denar - denominated debt accounted for 24.9% in the total general government debt portfolio, whole debt denominated in foreign currency accounted for 75.1%. Thereby, euro-denominated debt accounted for 68.8% of the total general government debt (also including domestic securities with FX clause), Special Drawing Rights accounted for 5.9%, Japanese Yen-denominated debt accounted for 0.3%, with the US dollar denominated debt accounting for 0.05%.

Chart 15. Interest (left) and currency structure of general government debt in the first quarter of 2023



In the period January– June 2023, 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 2023, “Fitch” and “Standard & Poor’s” Credit Rating Agencies revised the country’s credit rating.

- In April 2023, Credit Rating Agency “Fitch” revised the credit rating of the Republic of North Macedonia “BB+”, from negative to stable, thus affirming the sound policies the Government pursues amid global price and energy crisis. Budget deficit reduction in 2022 by 0.9 p.p. was highlighted as the key factor contributing to the stable outlook, and the Agency’s expectations are that it will further decrease as a result of the fiscal consolidation measures, i.e. the reduction of the costs related energy crisis measures, tax adjustments and rebound of the economy. Agency noted that the start of the EU integration process may be a factor leading to country’s rating being upgraded.
- In January 2023, “Standard & Poor’s” Credit Rating Agency affirmed the credit rating of our country to BB- with stable outlook. As per Standard and Poor’s, the stable outlook reflects that the proactive policymaking by the Government of the Republic of North Macedonia, as well as its moderate government debt levels, will offset the multiple risks arising from the conflict in Ukraine. “Standard and Poor’s” staff indicated that they expect for the fiscal consolidation to continue. Effects from the crisis will continue in 2023, however, compared to 2022, lower budget deficit of 4.1% is expected against the government’s draft target of 4.6%.