



**REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE**

**SEMI-ANNUAL REPORT ON EXECUTION  
OF THE BUDGET OF THE REPUBLIC OF  
MACEDONIA  
- JANUARY - JUNE 2018 -**

**Skopje, July 2018**

## Summary

- Gross-domestic product experienced growth of 0.1% in real terms in the first quarter (Q1) of 2018, as a result of the growth of private consumption and the positive contribution of net import;
- Number of employees in Q1 2018 was higher by 2.2% compared to the same quarter in 2017. Number of unemployed persons dropped by 5.4%, which resulted in reduction of unemployment rate to 21.6%;
- Inflation rate accounted for 1.5% in the first half of 2018, mainly as a result of the core inflation and, to lesser extent, of the increased prices of food and energy;
- Total budget revenues were collected in the amount of Denar 90.6 billion in the period January - June, accounting for 46.8% of the amount projected for 2018;
- Total budget expenditures were executed in the amount of Denar 95.2 billion in the period January - June, accounting for 45.0% of the annual projections;
- In the period January - June, budget deficit amounted to Denar 4.6 billion, accounting for one fourth of the projected deficit, i.e. 0.7% of the GDP projected for 2018;
- At the end of the second quarter of 2018, general government debt accounted for 39.9% of GDP, while public debt, including the guaranteed debt, accounted for 47.7% of GDP.

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## 1. International economic trends<sup>1</sup>

Global economy in the first quarter of 2018 experienced favourable trends, accommodative financial conditions and certain recovery on the global commodity markets. The growth of the global economy in 2018 is expected to reach 3.9%, driven by both the advanced economies as well as the emerging and developing economies.

Advanced economies are projected to grow at 2.5% in 2018, which is faster than their potential growth, in conditions of slight expansionary fiscal and accommodative monetary policy. European Union and Germany as a Member State with largest economy are also expected to experience economic growth of 2.5%. Economic growth in the European Union in the first quarter this year, albeit solid, is slightly below this projection, i.e. 2.2% on annual basis, mostly due to the lower economic growth rate in Germany, as a result of the reduced public consumption and volume of foreign trade. Thereby, high-frequency data and survey research for the second quarter of 2018 point out to a possibility for intensified economic growth. Core inflation and nominal wage growth in the European Union are still low, although inflation shows signs of moderate upward trend. Economic growth in emerging market and developing economies is expected to increase further in 2018, projected at 4.9%.

Risks with regard to economic growth projections are balanced. On the upside, the growth in advanced economies may turn out to be stronger than expected, taking into account that recovery in investments could foster higher productivity, leading to higher economic growth. On the downside, financial conditions, which remain easy despite the onset of monetary policy normalization, could tighten sharply and expose vulnerabilities with adverse repercussions to growth. Downside risks also refer to the possible escalating global trade protectionism and further upward trend in oil prices on the global market.

Favourable conditions in the global and the European economy present a good basis for keeping the strong growth of export of goods from Macedonia.

## 2. Macroeconomic trends in the country<sup>2</sup>

### 2.1. Economic activity

Real GDP growth in Q1 2018 amounted to 0.1% on annual basis (Chart 1), being below the expected growth dynamics, as a result of the unfavourable performance in the construction sector, whereby services, industrial and agricultural sectors had a positive contribution to economic growth.

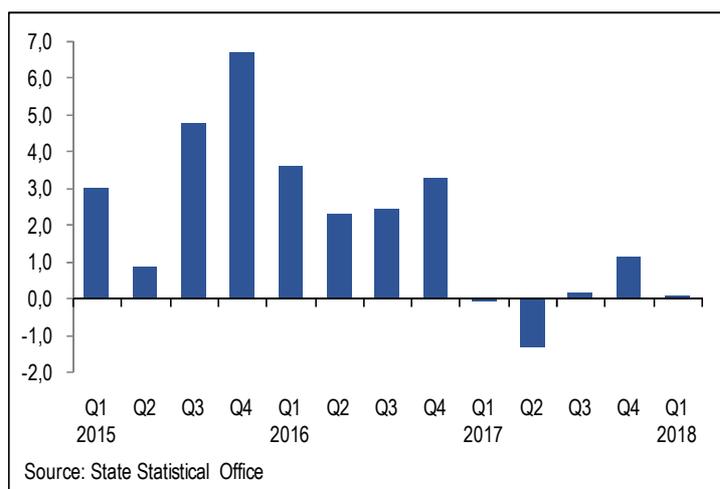
Growth in the agricultural sector continued at similar pace as in the previous year, accounting for 6.6%. Services sector registered real growth of around 3%, mostly as a result of intensified activity in the Trade, transportation, accommodation and food service sector by 10.5%. Positive trends in the trade sector, according to the high-frequency data, continued at similar pace in April and May in conditions of sales increase in all segments.

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<sup>1</sup> Analysis in this section is based on the "World Economic Outlook" of the International Monetary Fund, published in April 2018.

<sup>2</sup> Recently available data are used in the Report. As regards GDP and unemployment, data as of Q1 2018 inclusive are available.

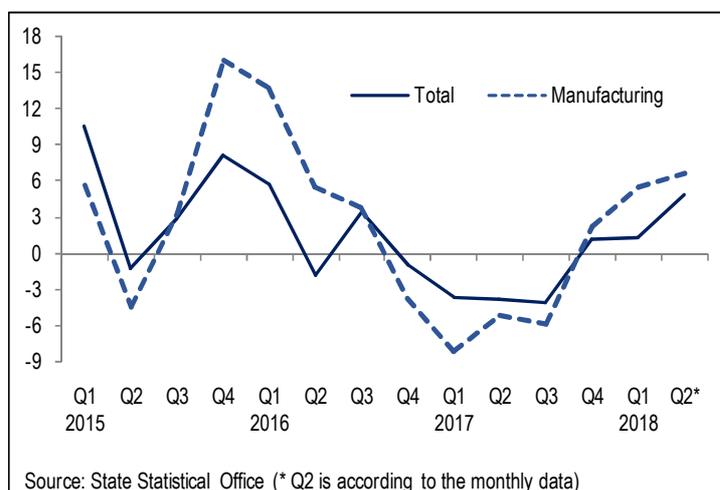
Chart 1: Real annual GDP growth (%)



Industrial sector experienced real growth of 1.4% in Q1 as a result of the 5.5% growth registered in the manufacturing sector (Chart 2). High-frequency indicators showed continuation of the positive trends in the industry in the second quarter, when annual growth of industrial production amounted to 4.9%, whereby manufacturing experienced 6.7% growth.

Drop of activity in the construction sector in Q1 amounted to 37.2% in real terms, in conditions of reduced value of completed construction works as regards civil engineering structures, mainly as a result of delays at some of the larger infrastructure projects. High-frequency data for April and May showed significant slowdown of the pace of construction activity decline, which amid expected intensified public investments, point out to improvement of the conditions in the construction sector in the upcoming period.

Chart 2: Annual growth of industrial production and manufacturing (%)



Analyzed according to the expenditure side of GDP, economic growth in Q1 2018 was driven by growth of private consumption and positive contribution of net export to growth. Growth of export of goods and services amounted to 10.6% in real terms on annual basis, mainly as a result of export by the capacities in the free economic zones, also underpinned by sound performance of most of the other export segments in conditions of favourable trends of the external demand. Import of goods and services surged by 5.1% in real terms. Monthly data on foreign trade in April and May showed retained high growth of export, which amounted to 14.2% in nominal terms in the period January - May, driven by the increased export of machinery and transport equipment

and of chemical products. Import of goods in this period picked up by 9.5%, whereby trade deficit of goods accounted for around 7% of the projected GDP in the period January - May, which was in line with the expectations.

Consumption in the first quarter grew by 1.5% in real terms, thus continuing to underpin the economic activity. Private consumption experienced 2.3% growth, above all as a result of the increase of household disposable income in conditions of increase of employment and wages, but was also supported by the crediting to households (points 2.2 and 2.3). Public consumption dropped by 1.4% in real terms, with public expenditures for goods and services registering a decrease. Gross investments in the first quarter dropped by 9.0% in real terms, due to the decline experienced in the construction works.

Despite the weaker performance at the beginning of the year, imposing downward risks to the projected economic growth for 2018 as a whole, real GDP growth projection in 2018 remained unchanged, i.e. economic growth of 3.2% is expected, which is generally aligned with the recent forecasts of the relevant national and international institutions (Table 1). In fact, the weaker performance in the first quarter was primarily reflecting the trends in the construction sector, i.e. the weaker dynamics of execution of public capital expenditures. Considering that these conditions are being gradually overcome, positive contribution of public investments to growth is expected in the upcoming period. In addition, positive signals as regards private investments, such as the strong inflow of FDIs in the country, high growth of import and production of capital goods, as well as boosted construction activity in buildings segment, are also envisaged to be kept in the period to come. Furthermore, it is expected a continuation of the high export growth and more significant contribution of consumption to growth.

Table 1: Comparison of GDP growth and inflation projections for Macedonia

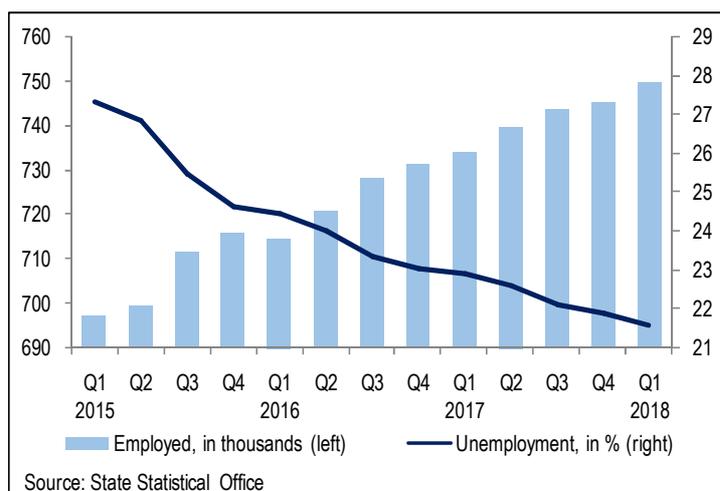
Institution	Real GDP Growth (%)				Inflation (%)			
	2018	2019	2020	2021	2018	2019	2020	2021
IMF	2,8	3,0	3,2	3,4	1,8	1,9	2,0	2,0
World Bank	2,3	2,7	3,0	/	1,6	2,0	2,0	/
EBRD	2,5	3,0	/	/	/	/	/	/
European Commission	3,1	3,3	/	/	1,9	2,0	/	/
Vienna Institute (WIIW)	3,5	3,1	3,3	/	2,0	2,0	2,0	/
NBRM	3,2	3,5	/	/	2,0	2,0	/	
Ministry of Finance	3,2	3,5	4,0	5,0	1,7	2,0	2,0	2,2

Source: IMF (World Economic Outlook Database, April 2018), World Bank (Western Balkans Regular Economic Report No. 13, April 2018), EBRD (Regional Economic Prospects, May 2018), European Commission (European Economic Forecast, May 2018), Vienna Institute for International Economic Studies (Forecast Report, June 2018) and NBRM (Quarterly Report, May 2018).

## 2.2. Labour market

Positive trends on the labour market continued in Q1 2018, however, with a more intensified pace than the projected one (Chart 3). According to the Labour Force Survey, employment rate in Q1 2018 amounted to 44.6% and, compared to the same quarter in 2017, it was higher by 0.9 p.p.. Number of employed persons surged by 2.2%, i.e. by around 16 thousand persons compared to the same quarter in 2017, whereby the highest employment increase was registered in the industrial sector (8.7 thousand or 5.2%), following by the construction sector (4.8 thousand or 9.4%) and the services sector (2.7 thousand or 0.7%).

Chart 3: Number of employed persons and unemployment rate

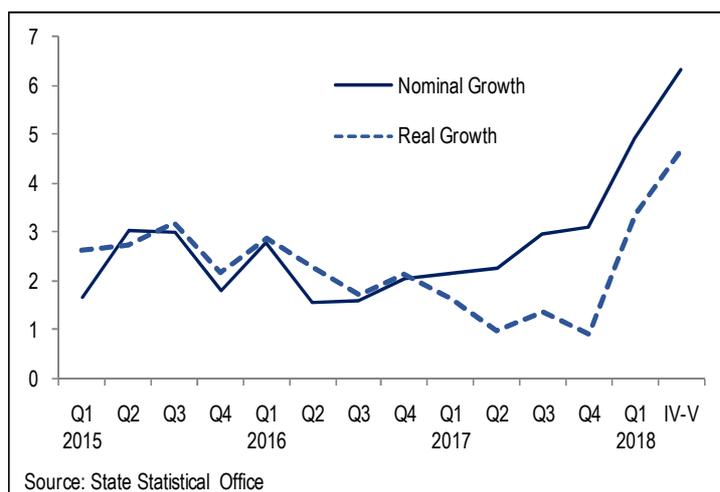


Analyzed by economic status, employment growth was registered at all categories, except at family workers. Hence, number of employees (wage earners) picked up by 13.5 thousand or by 2.4%, while the number of employers increased by 3.2 thousand or by 9.4%.

Employment increase was accompanied by drop of the number of unemployed persons, decreasing by around 12 thousand persons, i.e. 5.4% on annual basis. Such trends on the labour market caused for the unemployment rate in Q1 2018 to reduce to 21.6%, i.e. by 1.3 p.p. compared to the same quarter in 2017, while in relation to the previous quarter, it was lower by 0.3 p.p.. (Chart 3). Observed by age groups, unemployment declined at all groups, whereby the most significant decline was registered at the prime age group (25 - 49 years), amounting to 21%.

Number of active population surged by 4 thousand people, i.e. by 0.4% annually. Active population accounted for 56.9% of total working age population in Q1 2018, being higher by 0.2 p.p. compared to the same quarter in 2017.

Chart 4: Annual increase of average net wage (%)



Average net wage in Q1 grew by 4.9% in nominal terms and by 3.4% in real terms, while positive trends continued in April and May, when growth was 6.3% and 4.7% in nominal and real terms respectively. Thus, the average net wage in the period January - May 2018 increased by 5.5% in nominal terms and by 3.9% in real

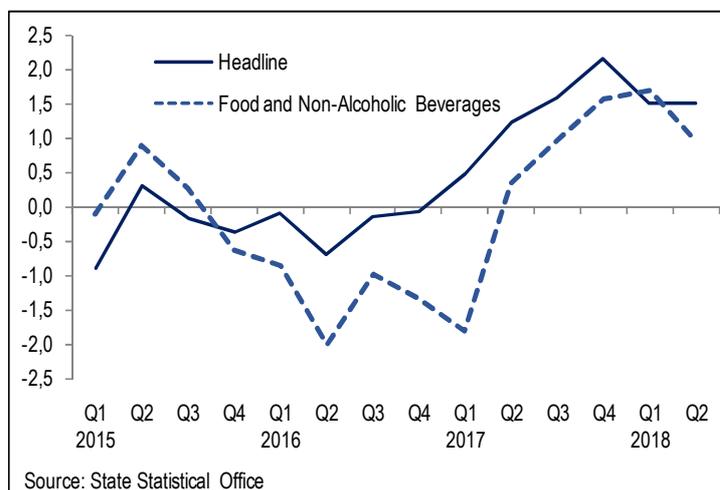
terms, being an acceleration compared to the previous years, which was a result of the increase of wages at almost all sectors (Chart 4).

### 2.3. Inflation and monetary trends

Inflation rate in the period January - June 2018 amounted to 1.5%, being within the projections. The increase of consumer prices in the first half of the year was mainly a result of the core inflation rather than of the increased prices of food and energy. Quarterly dynamics showed certain slowdown of inflation in the first quarter and its stabilization in the second quarter of the year (Chart 5).

In March 2018, NBRM additionally reduced the reference interest rate from 3.25% to 3%, reflecting the sound economic fundamentals, in conditions of further stabilization of the confidence of the economic agents. In June 2018, total deposits in the banking system were higher by approximately 10% on annual basis, as a result of the increased Denar deposits, as well as foreign currency deposits. In June 2017, credit activity picked up by 6.2% on annual basis, as a result of the both the increased crediting to households by 9.7% and the increased crediting to enterprises by 2.9%.

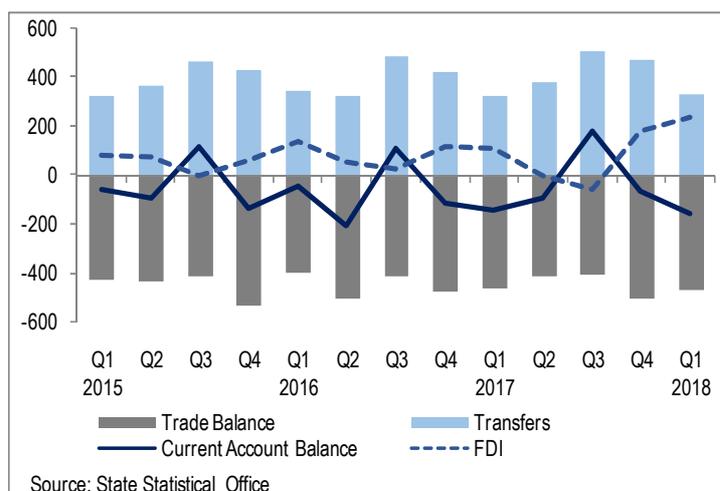
Chart 5: Annual inflation rate (%)



### 2.4. Balance of payments

The current account of the balance of payments had a negative balance in the amount of EUR 158 million in Q1 2018, mainly as a result of the trade deficit, whereby almost 70% of it was covered by the positive balance on the secondary income account (net transfers abroad) as shown in Chart 6. Compared to the same quarter in 2017, current account deficit experienced certain widening, mostly as a result of the deteriorated balance at the trade of goods and services. In the period to come, more favourable performance at the current account balance is expected amid expected increase of inflow of private transfers from abroad..

Chart 6: Balance of payments trends (in million euros)



Foreign direct investments (FDIs) in the country amounted to EUR 235 million in Q1 2018, being twice the amount of FDIs in Q1 2017, i.e. they were higher compared to FDIs throughout 2017. Most of the FDIs in this period, i.e. around 54%, was on the basis of inter-company debt, while FDI inflow in the form of reinvested profit and equity was also significant, accounting for 46% of the total inflow.

Reserve assets at the end of May 2018 amounted to EUR 2.6 billion, increasing by 11.7% compared to the end of 2017, above all as a result of the issuance of the sixth Eurobond on the international capital market. At the end of May, reserve assets provided a 4.4-month coverage of import of goods and services in the past period, being at an adequate level to manage the possible shocks.

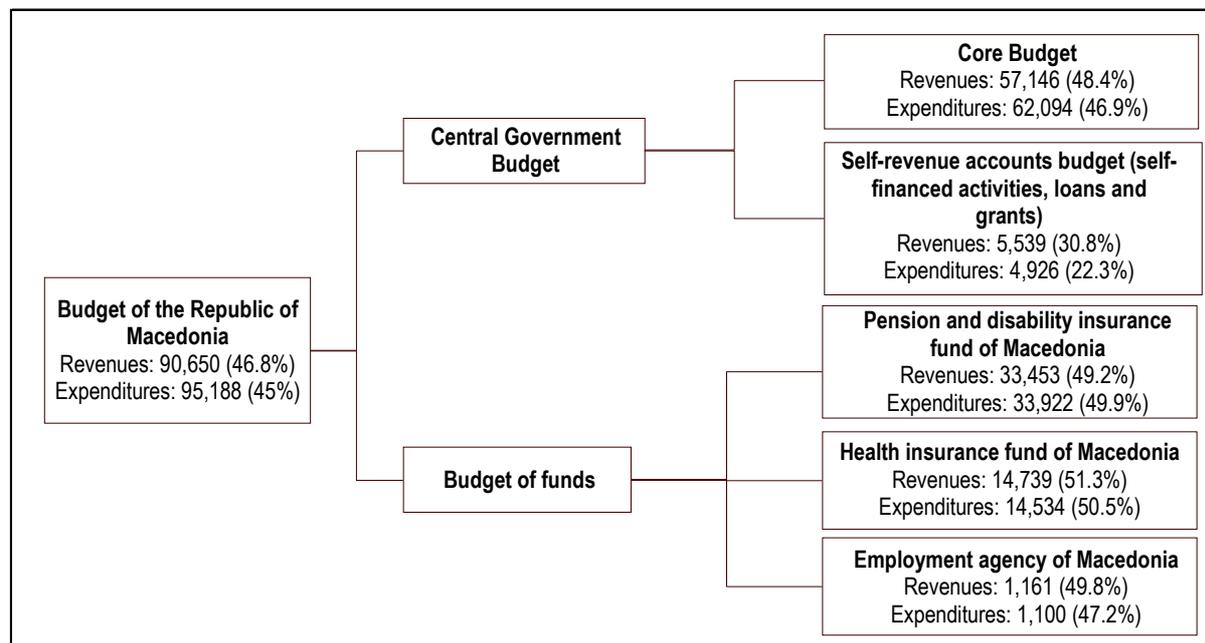
### 3. Fiscal sector

#### 3.1 Budget of the Republic of Macedonia<sup>3</sup>

The total revenues and total expenditures in the Budget of the Republic of Macedonia for 2018 are projected in the amount of Denar 193,512 million and Denar 211,745 million respectively, i.e. the deficit for the year is projected in the amount of Denar 18,233 million (Core Budget deficit amounting to Denar 14,193 million and deficit on the self-revenue accounts amounting to Denar 4,040 million), while the funds are projected to have balanced budget.

<sup>3</sup> Detailed data on each budget user are shown in the tables at the following link: <https://finance.gov.mk/en/node/699>.

Chart 7: Scheme of the Budget of the Republic of Macedonia - performance (in million denars) and realization rate (in %)



Total budget revenues were collected in the amount of Denar 90,650 million, accounting for 46.8% of the projected amount for 2018, which marks an increase by 5% compared to the total revenues collected in the same period in 2017 (Table 2). As regards total revenues, Denar 82,450 million was collected on the basis of tax revenues and social contributions, representing 48.4% of the amount projected for 2018, being a 7.4% increase compared to the previous year. Thereby, taxes were collected in the total amount of Denar 54,675 million (annual increase of 8%, i.e. representing 48.5% of the amount projected for 2018), while social contributions were collected in the amount of Denar 26,988 million (annual increase of 6%, i.e. representing 48.7% of the amount projected for 2018). With respect to tax revenues, annual increase was recorded at all tax revenues from 3% at VAT to 29.1% at the other tax revenues, where collection rate ranged from 45% at personal income tax to 61.5% at profit tax.

Total budget expenditures were executed in the amount of Denar 95,188 million in the period January - June 2018, accounting for 45.0% of the annual projections, i.e. a slight increase of 0.5% compared to the first half of 2017. Thereby, current expenditures were executed in the amount of Denar 91,167 million, i.e. 48.6% of the amount projected for the whole year, being an increase by 6% compared to 2017, above all as a result of the increased other transfers by 19.4% (mainly as a result of the timely payment of agricultural subsidies) in conditions of lower expenditures on the basis of wages and allowances by 0.6% and on the basis of goods and services by 4.9%. Capital expenditures were executed in the amount of Denar 4,021 million, i.e. accounting for 16.7% of the projections for 2018.

In January - July 2018, budget deficit amounted to Denar 4,538 million (Table 2), accounting for 0.7% of GDP projected for 2018, i.e. around one fourth of the total projected deficit of 2.7% of GDP for 2018. Core Budget deficit amounted to Denar 4,948 million, deficit of the funds amounted to Denar 203 million, while a surplus in the amount of Denar 613 million was realized on the self-revenue accounts.

Considering the revenue collection and expenditure execution within the Budget of the Republic of Macedonia in the first half of the year, certain downward deviations compared to the amounts projected for 2018 are possible, which would have no negative effect on the deficit. In particular, budget deficit throughout 2018 will not exceed the projected amount of Denar 18,233 million, i.e. 2.7% of GDP.

Table 2: Budget execution in January - June 2018

	Budget 2018	January - June 2018			Jan - Jun 2013 -2017	Jan - Dec 2013 -2017
	in million denars	in million denars	yearly growth rate	execution rate (compared to the 2018 budget)	average execution rate (compared to original budget)	
<b>TOTAL REVENUES</b>	<b>193,512</b>	<b>90,650</b>	<b>5.0%</b>	<b>46.8%</b>	<b>45.6%</b>	<b>95.4%</b>
<b>Taxes and contributions</b>	<b>170,200</b>	<b>82,450</b>	<b>7.4%</b>	<b>48.4%</b>	<b>47.4%</b>	<b>98.6%</b>
Taxes	112,828	54,675	8.0%	48.5%	47.4%	98.1%
Personal income tax	16,666	7,502	4.5%	45.0%	49.3%	105.5%
Profit tax	13,372	8,220	18.7%	61.5%	79.2%	132.1%
VAT	51,043	24,080	3.0%	47.2%	44.0%	91.7%
Excises	25,901	11,848	13.4%	45.7%	48.8%	109.0%
Import duties	5,328	2,781	10.9%	52.2%	48.4%	99.2%
Other taxes	520	244	29.1%	46.9%	24.0%	46.1%
Contributions	55,403	26,988	6.0%	48.7%	47.7%	99.9%
<b>Non tax revenues</b>	<b>17,201</b>	<b>5,942</b>	<b>-14.7%</b>	<b>34.5%</b>	<b>35.1%</b>	<b>76.2%</b>
<b>Capital revenues</b>	<b>1,510</b>	<b>811</b>	<b>125.9%</b>	<b>53.7%</b>	<b>32.8%</b>	<b>54.8%</b>
<b>Foreign donations</b>	<b>4,201</b>	<b>1,420</b>	<b>-34.3%</b>	<b>33.8%</b>	<b>37.6%</b>	<b>105.2%</b>
<b>Revenues from repayment of loans</b>	<b>400</b>	<b>27</b>	<b>-75.7%</b>	<b>6.8%</b>	<b>35.6%</b>	<b>76.8%</b>
<b>TOTAL EXPENDITURES</b>	<b>211,745</b>	<b>95,188</b>	<b>0.5%</b>	<b>45.0%</b>	<b>47.0%</b>	<b>96.1%</b>
<b>Current expenditures</b>	<b>187,601</b>	<b>91,167</b>	<b>6.0%</b>	<b>48.6%</b>	<b>48.8%</b>	<b>98.6%</b>
Wages and allowances	27,126	13,068	-0.6%	48.2%	49.1%	98.8%
Goods and services	17,558	6,818	-4.9%	38.8%	41.2%	85.0%
Transfers	134,233	69,077	9.1%	51.5%	50.3%	100.1%
Social transfers	98,745	49,415	5.8%	50.0%	49.7%	100.8%
Pension Fund	60,451	30,122	5.0%	49.8%	50.2%	101.4%
Unemployment benefits	1,706	824	51.5%	48.3%	38.7%	84.3%
Social benefits	8,330	4,170	6.6%	50.1%	49.3%	101.4%
Health care	28,258	14,299	5.4%	50.6%	49.5%	100.6%
Other transfers	33,665	18,962	19.4%	56.3%	52.4%	98.2%
Interest	8,684	2,204	-5.8%	25.4%	43.4%	112.9%
<b>Capital expenditures</b>	<b>24,144</b>	<b>4,021</b>	<b>-53.7%</b>	<b>16.7%</b>	<b>34.5%</b>	<b>79.1%</b>
<b>BUDGET BALANCE</b>	<b>-18,233</b>	<b>-4,538</b>	<b>-45.4%</b>	<b>24.9%</b>	<b>58.3%</b>	<b>102.0%</b>

Source: Ministry of Finance

### 3.1.1 Execution of the Core Budget

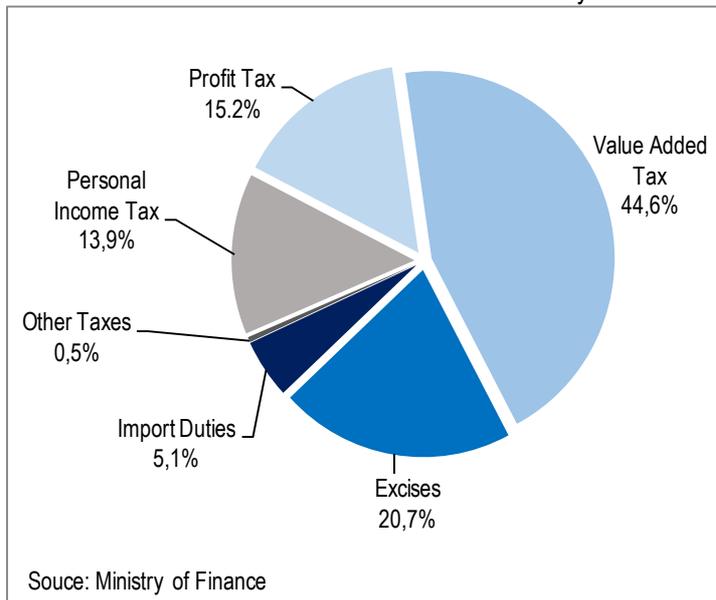
Total Core Budget revenues amounted to Denar 57,146 million in the period January - June 2018, accounting for 48.4% of the total revenues projected for 2018 in the amount of Denar 118,083 million.

Tax revenues, being the highest revenue item within the total revenues, were collected in the amount of Denar 54,038 million, i.e. 48.5% of the annual projections, while non-tax and capital revenues were collected in the amount of Denar 3.081 million or 50.1% of the revenues projected for the whole year.

The structure of collected tax revenues shows that VAT revenues accounted for the most with Denar 24,080 million or 44.6% of the total tax revenues (Chart 8), followed by revenues on the basis of excise duties collected in the amount of Denar 11,211 million, revenues on the basis of profit tax in the amount of Denar 8,220

million, PIT revenues collected in the amount of Denar 7,502 million, revenues on the basis of import duties in the amount of Denar 2,781 million and other tax revenues in the amount of Denar 244 million.

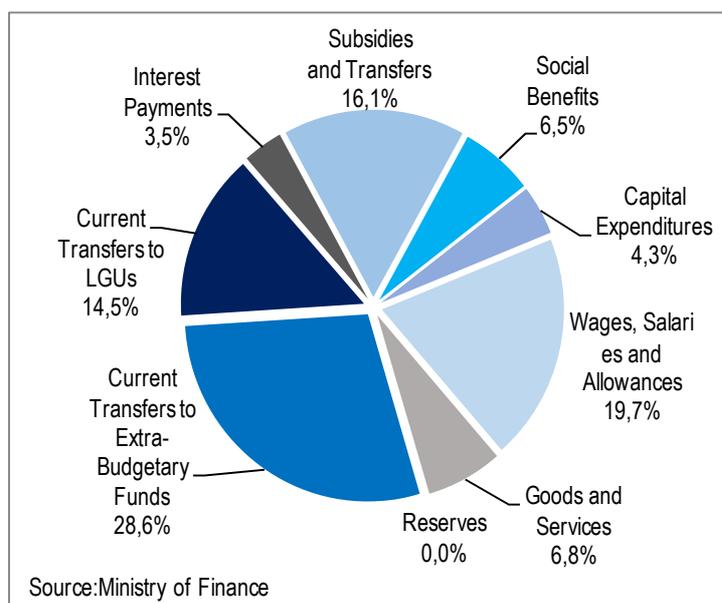
Chart 8: Structure of collected tax revenues in January - June 2018 (in %)



Total Core Budget expenditures were executed in the amount of Denar 62,094 million in the period January - June 2018 or 46.9% of the total funds projected in the 2018 Core Budget.

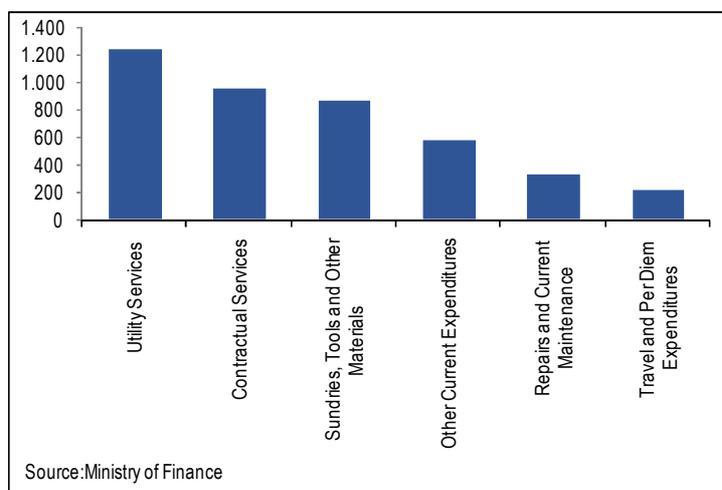
Expenditures on the basis of current transfers to extra-budgetary funds, amounting to Denar 17,756 million or 28.6%, accounted for the most in the structure of expenditures executed in this period, followed by expenditures on the basis of wages, salaries and allowances in the amount of Denar 12,246 million, subsidies and transfers in the amount of Denar 9,974 million, expenditures on the basis of current transfers to local government units (LGUs) amounting to Denar 8,987 million, goods and services in the amount of Denar 4,208 million, social benefits amounting to Denar 4,031 million, capital expenditures in the amount of Denar 2,674 million and expenditures related to interest payments in the amount of Denar 2,204 million. Chart 9 shows the percentage share within the total expenditures.

Chart 9: Structure of executed expenditures according to economic classification in January - June 2018 (in %)



Out of the total projected funds for wages and allowances in the 2018 Core Budget, 48.3% were executed in the analyzed period, while execution of expenditures at the "goods and services" category accounted for 39.8%. Chart 10 shows disaggregated data on executed expenditures on the basis of goods and services.

Chart 10: Expenditures for goods and services in January - June 2018 (in million denars)



Current transfers to extra-budgetary funds in the first half of 2018 accounted for 51.4% of the annual projections. Within this category, transfers to Pension and Disability Insurance Fund of the Republic of Macedonia accounted for the most - 82.5%, while the remaining funds were transferred to the Health Insurance Fund.

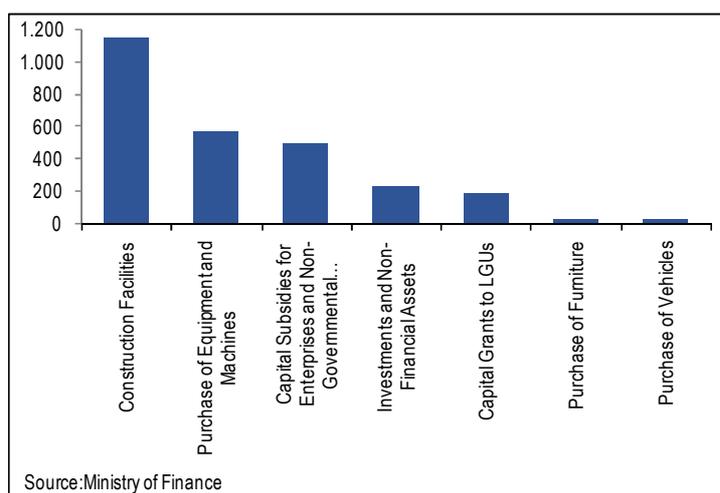
Out of the total funds projected for current transfers to LGUs in 2018, 49.5% were executed in the first half of the year. The highest amount of transfers in this category, i.e. 87.7%, was executed on the basis of earmarked grants, while the remaining transfers were executed on the basis of VAT grants.

The rate of realization at the “subsidies and transfers” category accounted for 64.3% in the analyzed period. Most of these expenditures, i.e. 61.6%, was paid on the basis of agricultural subsidies by the Agency for Financial Support in Agriculture and Rural Development.

In the period January – June 2018, expenditures on the basis of social benefits accounted for 50.4% of 2018 projections.

During the analyzed period, capital expenditures accounted for 23.8% of the funds projected for this purpose in the 2018 Core Budget. Chart 11 shows disaggregated data on executed capital expenditures.

Chart 11: Capital expenditures in January - June 2018 (in million denars)



In the analyzed period, repayment of principal from the Core Budget in relation to the total debt amounted to Denar 22,005 million, while interest-related payments amounted to Denar 2,204 million. Out of the total outflows on the basis of loan repayment, outflow for repayment of principal to domestic creditors amounted to Denar 8,124 million, while the outflows for repayment of principal to non-resident creditors were in the amount of Denar 13,881 million. As for interest-related payments to domestic creditors, Denar 1,358 million was paid, while Denar 846 million was paid to foreign creditors.

### 3.1.2 Funds' budget execution

The deficit of the Pension and Disability Insurance Fund amounted to Denar 469 million in the first half of 2018. By June, revenues were collected in the amount of Denar 33,453 million, accounting for 49.2% in relation to the 2018 projections, while expenditures were executed in the amount of Denar 33,922 million, i.e. 49.9% of the annual projections. Out of the total revenues, Denar 18,115 million was revenues collected on the basis of pension and disability insurance contributions (48.6% of annual projections), Denar 14,640 million was transferred from the Core Budget, Denar 637 million was the amount of revenues collected on the basis of excise duties, while the remaining Denar 61 million was other revenues of the Fund.

As regards PDIF expenditures, pension-related expenditures were executed in the amount of Denar 26,792 million or 49.6% of 2018 projected expenditures. Payment of pensions was made in accordance with the dynamics envisaged for 2018. Funds paid for transfers from PDIF to the private pension funds amounted to Denar 3,330 million, while funds paid for health insurance contributions for pensioners to the Health Insurance Fund amounted to Denar 3,575 million. Expenditures related to wages, goods and services and other costs amounted to Denar 225 million.

As of June 2018 inclusive, Health Insurance Fund surplus amounted to Denar 205 million, in conditions of revenues collected in the amount of Denar 14,739 million, accounting for 51.3% of the annual projections, and expenditures executed in the amount of Denar 14,534 million, accounting for 50.5% of the 2018 projections.

During the analyzed period, revenues collected on the basis of health insurance contributions amounted to Denar 7,716 million or 48.8% of the annual projections. Health insurance contributions for pensioners paid to the PDI Fund amounted to Denar 3,575 million, while health insurance contributions paid by the Employment Agency of the Republic of Macedonia amounted to Denar 55 million. Transfers from the Core Budget amounted to Denar 3,115 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 55 million. As regards expenditures, funds were spent for primary health care in the amount of Denar 12,245 million, sick leave-related costs amounted to Denar 1.578 million, expenditures for orthopedic aids were executed in the amount of Denar 244 million, while funds spent for medical treatment abroad amounted to Denar 232 million. Expenditures related to wages, goods and services amounted to Denar 218 million.

In the period January - June 2018, there was surplus of the Employment Agency of the Republic of Macedonia, which amounted to Denar 61 million, in conditions of revenues collected in the amount of Denar 1,161 million (49.8% of 2018 projections) and expenditures executed in the amount of Denar 1,100 million (47.2% in relation to the annual budget). Contributions on the basis of insurance in case of unemployment were collected in the amount of Denar 1,157 million, accounting for 50.0% of the annual projections.

In the first half of 2018, EARM expenditures related to unemployment benefits amounted to Denar 564 million, expenditures related to employment of disabled persons were Denar 95 million, expenditures related to active employment measures were Denar 260 million, while expenditures related to contributions paid for pension and health insurance for unemployed amounted to Denar 58 million. Agency's expenditures related to wages, goods and services were in the amount of Denar 123 million.

### **3.1.3 Budget execution regarding self-revenue accounts of budget users**

Pursuant to the 2018 Budget of the Republic of Macedonia, the 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 4,040 million, while the surplus realized in the analyzed period amounted to Denar 613 million.

As of June 2018 inclusive, total revenues generated on these accounts amounted to Denar 5,539 million (30.8% of 2018 projections), while expenditures were executed in the amount of Denar 4,926 million (22.3% of the annual budget). Within the expenditures, current expenditures were executed in the amount of Denar 3,597 million or 39.0% of the annual projections, while capital expenditures were executed in the amount of Denar 1,329 million or 10.4% of the annual projections.

### **3.1.4 Budget execution by budget user<sup>4</sup>**

Review of budget expenditures and outflows for the largest budget users is shown below, whose total annual budget accounts for 84.5% of the total budget of all budget users (Chart 12).

In the period January – June 2018, Denar 27,217 million was spent through the organizational code Ministry of Finance – Functions of the State<sup>5</sup>. The amount spent in this period was by 2.4 times higher compared to the amount spent in the same period in 2017, as a result of the higher amount for principal repayment in this

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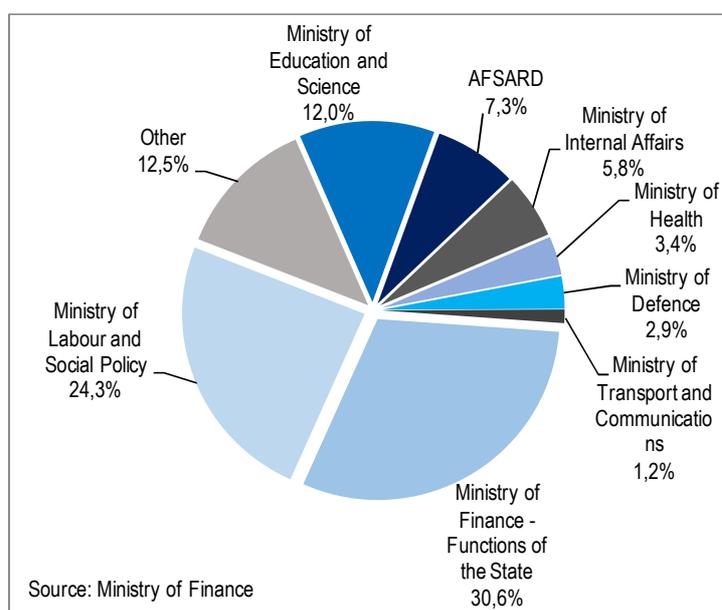
<sup>4</sup> Detailed data on revenues and expenditures for each budget user are shown in the tables at the following link: <https://finance.gov.mk/mk/node/898>. Data are preliminary and not consolidated, also they include both the inflows and the outflows of funds.

<sup>5</sup> As regards the organizational code Functions of the State, the following activities are included: timely servicing of liabilities (interest and principal repayment) 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 (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds financing unforeseen costs in the course of the fiscal year.

period of 2018 (Denar 21,960 million or 80.7% of the total expenditures of this budget user), following the first installment of PBG repayment and early partial repayment of the existing Eurobond in January. At the same time, the amount for principal repayment towards domestic institutions (more details presented in point 3.2) was also higher. Third highest expenditure item, participating with 4.1%, was current transfers to LGUs with Denar 1,104 million being spent therefor.

Ministry of Labour and Social Policy spent Denar 21,623 million more in the first half of 2018 or 4.3% more compared to the previous year. Expenditure execution accounted for 49.6% of its total 2018 budget. Thereby, most of the expenditures (73.3%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 15,857 million was spent or 50.1% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 18.8% in the total expenditures. As for this purpose, 50.4% (Denar 4,057 million) of the expenditures projected for 2018 was executed.

Chart 12: Structure of executed expenditures and outflows by budget user in January - June 2018 (in %)



In the period January - June 2018, the Ministry of Education and Science executed budget funds in the amount of Denar 10,691 million (42.5% of the projected ones), being by 4.4% less compared to the previous year. Current transfers to LGUs accounted for the most of the expenditures (63.8%) with Denar 6,824 million being spent therefor or 49.4% of total projected funds. Wages and allowances were the second highest expenditure category, participating with 15.5% with Denar 1,662 million being spent therefor, i.e. 47.4% of the total projected funds. As for goods and services (accounting for 11.8% of the total expenditures), Denar 1,259 million was spent, accounting for 30.6% of the total funds projected for this year. Regarding capital goods (accounting for 1.6% of the total expenditures), Denar 169 million was spent, accounting for 7.9% of the total funds projected for this year.

In the first half of 2018, the Agency for Financial Support in Agriculture and Rural Development executed expenditures in the amount of Denar 6,535 million (39.2% increase compared to 2017), i.e. executed expenditures accounted for 75.7% of the total funds projected for 2018. High increase of expenditures executed in 2018 was a result of the timely payment of agricultural subsidies in 2018, whereby 93.4% of the projected funds or Denar 6,144 million was paid in the first half of the year.

In the period January - June 2018, the Ministry of Internal Affairs executed expenditures in the total amount of Denar 5,121 million, accounting for 50.0% of its 2018 budget, i.e. being a 6.2% increase compared to 2017. Wages and allowances were the highest expenditure item, participating with 70.3%, with Denar 3,600 million being spent therefor, which accounts for 49.3% of the projected ones. The second highest expenditure

item was goods and services, participating with 15.9%, funds in the amount of Denar 817 million being spent therefore or accounting for 47.6% of the annual projections.

In the first half of the year, the Ministry of Health executed budget funds in the amount of Denar 3.067 million (5.5% increase in relation to the same period in 2017), accounting for 46.1% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 59.9%, for which Denar 1,837 million was spent in the period January – May 2018 or 65.8% of the funds projected for 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 29.8% of the total expenditures, funds in the amount of Denar 914 million being executed therefore in the analyzed period, i.e. 46.3% of total projected ones. Capital expenditures (participating with 8.6% in the total expenditures) were executed in the amount of Denar 264 million or 14.9%.

In the first half of 2018, the Ministry of Defense executed budget funds in the amount of Denar 2,566 million, accounting for 39.4% of its total 2018 budget, being a 1.6% decline compared to 2017. Expenditures related to wages and allowances accounted for the most with 72.1% with Denar 1.849 million being spent therefore in the period January - June 2018, accounting for 48.9% of the total funds projected for the current year. Expenditures related to goods and services accounted for 23.2% of total expenditures with Denar 595 million being spent therefore during the analyzed period, i.e. 34.2% execution of the total projected funds.

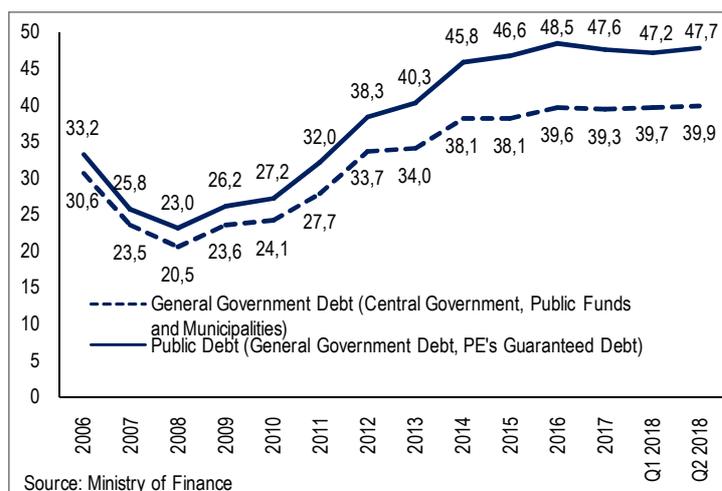
As regards Financing the activities in the field of culture, in the period January – June 2018, funds in the amount of Denar 1,497 million were spent, accounting for 39.9% of the total 2018 budget. The amount spent for this purpose was by 33.2% lower compared to the same period in 2017. Decreased expenditures at this budget user were partially a result of the reduced budget for capital expenditures in the field of culture, all to the end of improving the structure and the economic justification of the total capital expenditures. Wages and allowances accounted for the most in the total expenditures with 34.0%, while their execution in the first half of 2018 accounted for 48.4%, i.e. Denar 509 million was spent therefore. Expenditures related to subsidies and transfers accounted for 31.8% with Denar 475 million being spent therefore or 38.7% of the projected funds. Capital expenditures were executed in the amount of Denar 300 million, accounting for 30.7% of total funds projected for the current year, whereby this expenditure item accounted for 20.1% of the total expenditures.

Ministry of Transport and Communications executed funds in the amount of Denar 1,067 million in the first half of 2018, accounting for 17.6% of its total 2018 budget. Compared to the same period last year, expenditures were lower by 53.6%. Capital expenditures were executed in the amount of Denar 645 million in the first half of 2018, accounting for 12.3% of its annual budget for this purpose; however, it is expected for execution of capital expenditures to intensify in the second half of 2018.

### **3.2. Public debt management**

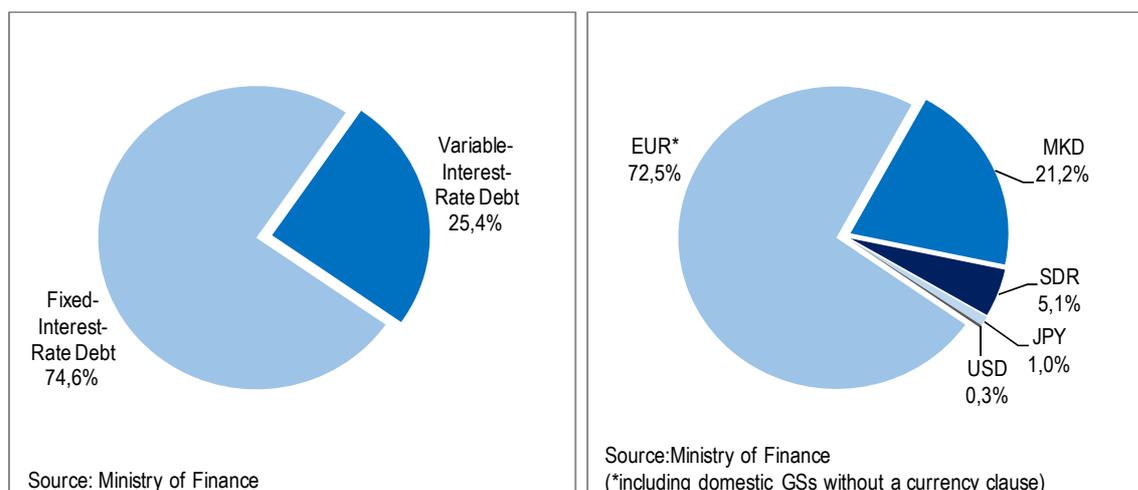
As of 30 June 2018, the general government debt of the Republic of Macedonia amounted to EUR 4,300.4 million, i.e. 39.9% of the projected GDP for 2018, while public debt, including the general government debt and the guaranteed debt, amount to EUR 5,139.3 million in the same period, i.e. 47.7% of GDP (Chart 13). Thereby, compared to the end of 2017, the share of general government debt in GDP in Q2 was higher by 0.6 p.p., while the share of public debt surged by 0.2 p.p..

Chart 13: Stock of general government debt and public debt (% of GDP)



From the interest structure point of view as regards the general government debt, the fixed-variable interest rate ratio was 74.6:25.4 respectively at the end of Q2 (Chart 14). Analyzed by currency, at the end of Q2, the debt denominated in national currency accounted for 21.2% in total public debt portfolio, while the share of debt denominated in foreign currency was 78.8%. Thereby, the share of euro-denominated debt in the total general government debt was 72.5% (including government securities with FX clause), the special drawing rights accounted for 5.1%, while the share of each Japanese Yen-denominated debt and US dollar-denominated debt was 1.0% and 0.3% respectively.

Chart 14: Interest (left) and currency structure of general government debt in Q2 2018



Sixth Eurobond, in the amount of EUR 500 million, with 7-year maturity period and coupon interest rate of 2.75%, was issued in January 2018, reflecting the exceptionally great confidence of the international investors in the perspectives of the Macedonian economy, as well as the favourable conditions on the international capital market. Eurobond proceeds are used for budget deficit support, i.e. for regular execution of all budget expenditures, as well as debt repayment, including the first installment of PBG repayment in the amount of EUR 95 million, which fell due at the end of January 2018.

Ministry of Finance took advantage of the exceptionally favourable conditions on the international capital market and, by actively managing the public debt, it made early partial repayment of the existing Eurobond, falling due in 2020 in the amount of EUR 91.67 million in nominal terms with an interest rate of 4.875%.

As regards the domestic market, special emphasis was put on increased issuance of long-term securities, as well as extending the maturity and increasing the volume of the existing government securities portfolio. Thus, 30-year treasury bond was issued for the first time in April 2018 and, in addition to Slovenia, Macedonia is the only country in the region having issued a 30-year bond. Private pension funds and insurance companies invested in the 30-year bond. This is a signal of investors' confidence in the Macedonian economy, since extended maturity, i.e. repayment period, points out to increased investors' confidence.

In the course of the first half of 2018, the credit rating agencies Fitch and Standard & Poor's revised the country's credit rating on regular basis:

- in February 2018, Fitch announced that it has revised Macedonia's outlook from negative to positive, at the same time affirming the credit rating at BB. The revised credit rating reflected the stabilization of the domestic political situation and the improvement in international relations, enhanced confidence in Government's commitment to fiscal targets, as well as the plans for gradual reduction of deficit, maintaining low inflation and financial stability, underpinned by a credible and coherent macroeconomic and financial policy; and
- in March 2018, Standard & Poor's affirmed the previously awarded BB- long- and short-term foreign and local currency sovereign credit rating on the Republic of Macedonia, at the same time affirming the stable outlook of the country. The stable outlook reflects Standard & Poor's credit rating on the balance between the risks of Macedonia's rising public debt and remaining political uncertainty on one hand, and the country's favourable economic prospects on the other.