

# FISCAL SUSTAINABILITY AND ECONOMIC GROWTH SUPPORT PLAN: POLICIES, RECOMMENDATIONS, MEASURES AND INDICATORS

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## INTRODUCTION

Health crisis has emphasized the importance of public finance sustainability, strongly urging the need to balance the short-term stabilization objectives and the long-term fiscal sustainability. Such circumstances have foisted the necessity for an expansionary fiscal policy to support the economy amid pandemic, which, on the other hand, led to rapid budget deficit and public debt increase. This also imposed the necessity to rationalize public expenditures in the medium term, as well as measure the results of expenditure execution to the end of increasing the spending effectiveness and reaching/achieving fiscal sustainability in the medium term.

2020-2024 Fiscal Strategy of the Republic of North Macedonia (with prospects until 2026) comprises medium-term guidelines and goals of the fiscal policy, reflects the medium-term fiscal goals and strategic priorities of the Government of the Republic of North Macedonia and provides for monitoring the dynamics of revenue performance and expenditure execution in relation to the fiscal goals. 2022-2026 Fiscal Policy mirrors the commitment to further strengthening of public financial management and fiscal sustainability, contributing to maintaining macroeconomic stability and gradual fiscal consolidation. Key elements of the medium-term fiscal policy are redesigning of the budget policy and **fiscal consolidation**, aimed at supporting the macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the national economy.

Planned fiscal consolidation covers three main aspects:

- **improving budget revenue collection**, via measures aimed at reducing informal economy and measures aimed at preventing and combatting corruption;
- **reduction and restructuring of budget expenditures**, by cutting non-priority and non-essential expenditures, greater support to the private sector and innovations aimed at strengthening competitiveness, high allocations for social protection and revision of the methodologies for transfers and subsidies, etc.;
- **changes in the sources of financing the budget deficit**, greater diversification of the sources of financing the deficit, financing and implementing certain projects through public-private partnerships and establishing Development Fund for Strategic Investments.

Medium-term fiscal strategy will provide for gradual narrowing of the total budget deficit from 4.9% of GDP in 2021 to 2.2% in 2026. Primary budget deficit will accordingly decline gradually from 3.6% of GDP in 2021 to 1.2% in 2026.

(Denar million)

	Final account 2020	2021*	2022*	2023*	2024*	2025*	2026*
<b>Total revenues</b>	<b>189.554</b>	<b>212.630</b>	<b>233.217</b>	<b>251.273</b>	<b>273.525</b>	<b>296.815</b>	<b>321.844</b>
<b>Tax revenues and contributions</b>	<b>173.464</b>	<b>186.282</b>	<b>207.047</b>	<b>224.467</b>	<b>246.319</b>	<b>268.909</b>	<b>293.738</b>
Tax revenues	106.900	117.982	133.719	146.748	163.946	181.603	201.202
Contributions	66.564	68.300	73.328	77.719	82.373	87.306	92.536
<b>Non-tax revenues</b>	<b>11.173</b>	<b>16.954</b>	<b>16.516</b>	<b>17.152</b>	<b>17.352</b>	<b>17.552</b>	<b>17.752</b>
<b>Capital revenues</b>	<b>1.846</b>	<b>3.187</b>	<b>3.334</b>	<b>3.334</b>	<b>3.534</b>	<b>4.034</b>	<b>4.034</b>
Donations	3.071	6.207	6.320	6.320	6.320	6.320	6.320
<b>Total expenditures</b>	<b>243.421</b>	<b>247.567</b>	<b>265.876</b>	<b>279.687</b>	<b>298.863</b>	<b>320.406</b>	<b>344.338</b>
<b>Current expenditures</b>	<b>227.306</b>	<b>223.512</b>	<b>233.286</b>	<b>240.975</b>	<b>251.696</b>	<b>269.593</b>	<b>284.459</b>
Salaries and contributions	29.775	31.394	31.862	31.962	32.062	33.562	34.062
Goods and services	15.423	21.322	22.568	24.418	26.418	29.718	32.718
Transfers to LSGUs	21.373	21.315	21.453	22.184	22.953	25.807	28.671
Subsidies and transfers	34.905	19.351	21.234	22.234	25.734	29.590	33.090
Social contributions	117.799	120.653	126.097	129.803	134.420	139.708	145.176
Interest payments	8.031	9.478	10.072	10.374	10.109	11.208	10.742
Domestic	2.742	3.069	3.603	3.904	4.151	4.471	4.782
Foreign	5.289	6.409	6.469	6.470	5.958	6.737	5.960
<b>Capital expenditures</b>	<b>16.115</b>	<b>24.055</b>	<b>32.590</b>	<b>38.712</b>	<b>47.167</b>	<b>50.813</b>	<b>59.879</b>
<b>Budget balance</b>	<b>-53.867</b>	<b>-34.937</b>	<b>-32.659</b>	<b>-28.414</b>	<b>-25.338</b>	<b>-23.591</b>	<b>-22.494</b>
<b>Primary budget balance</b>	<b>-45.836</b>	<b>-25.459</b>	<b>-22.587</b>	<b>-18.040</b>	<b>-15.229</b>	<b>-12.383</b>	<b>-11.752</b>
<b>Total revenues, % of GDP**</b>	<b>28,5</b>	<b>30,1</b>	<b>31,0</b>	<b>31,1</b>	<b>31,4</b>	<b>31,5</b>	<b>31,6</b>
<b>Total expenditures, % of GDP**</b>	<b>36,7</b>	<b>35,0</b>	<b>35,3</b>	<b>34,6</b>	<b>34,3</b>	<b>34,0</b>	<b>33,8</b>
<b>Budget balance, % of GDP**</b>	<b>-8,1</b>	<b>-4,9</b>	<b>-4,3</b>	<b>-3,5</b>	<b>-2,9</b>	<b>-2,5</b>	<b>-2,2</b>
<b>Primary budget balance, % of GDP**</b>	<b>-6,9</b>	<b>-3,6</b>	<b>-3,0</b>	<b>-2,2</b>	<b>-1,7</b>	<b>-1,3</b>	<b>-1,2</b>

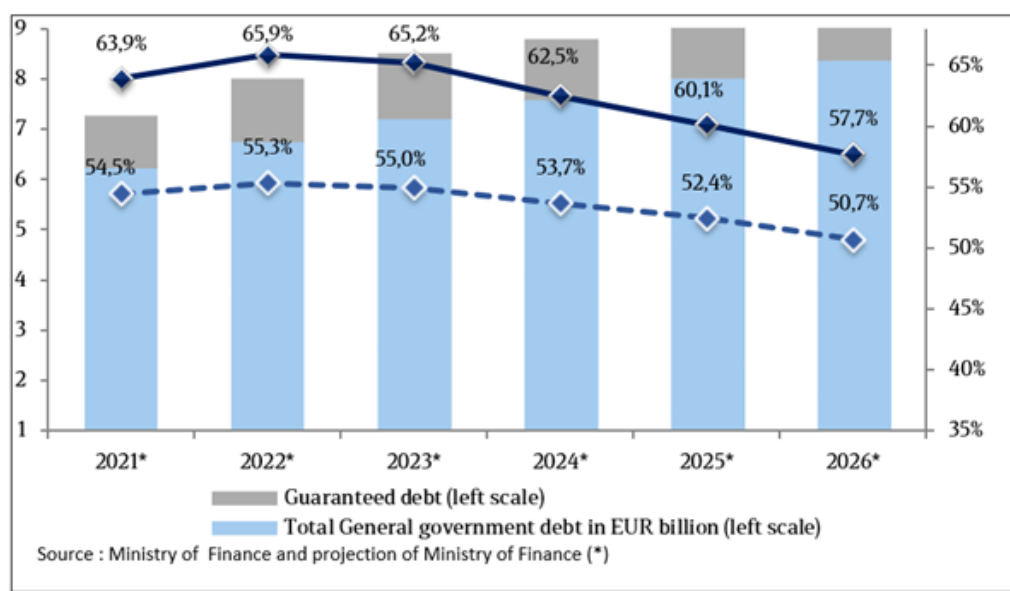
Source: Ministry of Finance and projections of the Ministry of Finance (\*)

Furthermore, Public Debt Management Strategy sets the framework for the Government to act towards prudent public debt management in the medium term. Objectives of public debt management policy are the following:

- financing the needs of the government with the lowest cost possible, in the medium and the long run, with sustainable level of risk;
- identifying, monitoring and managing the risks which public debt portfolio is susceptible to; and
- developing and maintaining efficient domestic financial market.

Medium-term projections presented in the 2022-2026 Public Debt Management Strategy show that public debt will exceed the maximum threshold of 60% in the respective period, however, as a result of the fiscal consolidation measures, it is expected to stabilize, followed by returning to the stipulated limit below 60% of GDP in 2026. Moreover, public

debt will experience moderate upward trend in the medium term by 2022, as a result of the crisis consequences. Afterwards, in the period following 2023, debt level is expected to gradually decline with the fiscal consolidation measures and the accelerated economic growth.



The analysis was made on the basis of historic records on projected and generated budget revenues and executed budget expenditures in the period 2015-2021, all to the end of observing their size and trend so as to undertake measures for fiscal consolidation and ensuring sustainability of public finances. The first section includes analyses of the budget expenditure side, with draft measures to rationalize the expenditures by categories, activities and measures to improve both the efficiency and the effectiveness of public revenue collection system so as to ensure better revenue collection and strengthened budget revenue side. New sources and models of budget financing are also analyzed.

The second section encompasses consistency of the policies when planning the Budget, clearly and specifically presenting the goals to be achieved in a given period, by projecting both the activities and expenditures in a more realistic manner, to the end of implementing the policies through efficient and effective use of the resources. Stronger relationship of the budget planning with the Government Program and the sector strategies is required, as well as relationship with the Economic Reform Program and the Intervention Plan on Investments, expressed in qualitative and quantitative terms through the performance indicators, i.e. effect measuring.

Budget planning indicators are presented in the third section, so as to measure the effects of executing budget expenditures in relation to the results in terms of public goods or public services provided or rendered by the budget users. Moreover, spending indicators, i.e. spending standards, are analyzed, for certain types of expenditures. The

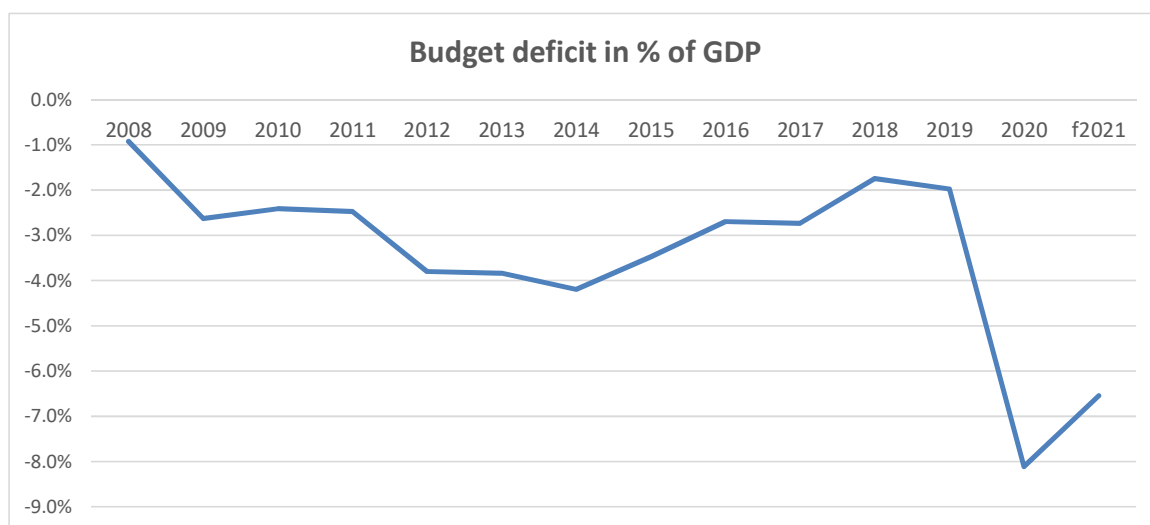
objective therefrom is to identify average expenditures at a budget user per employee, as well as other quantitative analyses, so as to detect the more cost-effective budget users. Therefore, certain spending standard is to be introduced for all budget users, also taking into account the service they render. The analysis is made to the end of achieving the following objective:

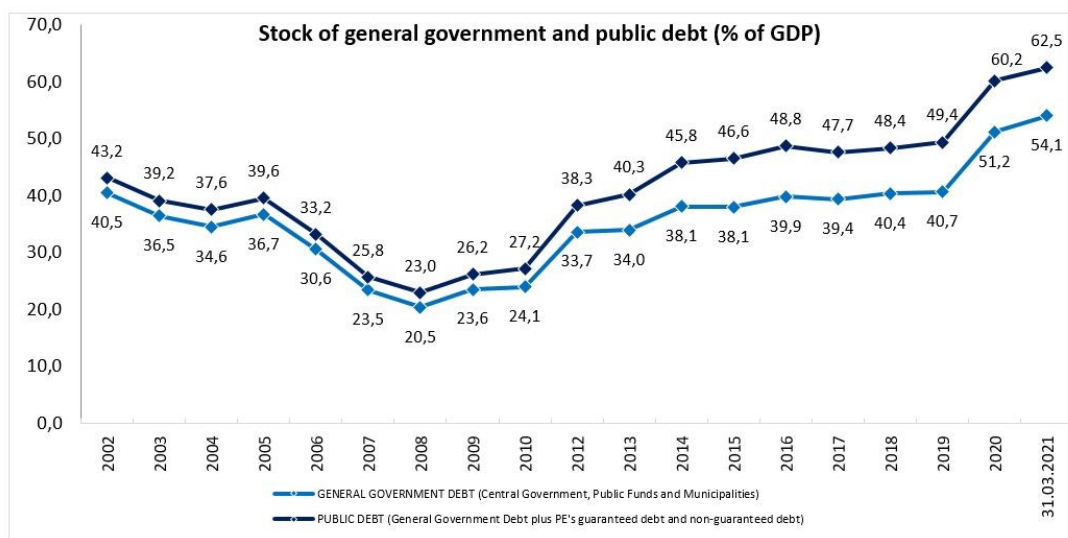
**Objective:** Ensuring sustainability of public finances, at the same time encouraging economic growth through the fiscal consolidation process, consistency of the policies in the budget planning process and development of indicators to measure the performance as regards implementation of the policies incorporated in the budget.

## I. FISCAL CONSOLIDATION

Public finances as a whole incorporate the financial relationship and processes arising from government's activity related to performance of government functions and functioning of the public services, and they pertain to collecting public revenues and executing public expenditures to finance government's public functions. Public finances, i.e. public sector economics, focus on activities related to revenues, mostly taxation, as well as distribution of funds.

In the period 2015 - 2019, state budget deficit was at a relatively low level in general, accounting for 2.5% of GDP in average, with a tendency of continuous decline in the medium term, whereby the lowest level was registered in 2018, with deficit accounting for 1.8% of GDP, i.e. in 2019, the deficit accounted for 2% of GDP. During the same period, level of government and public debt was relatively low (at the end of 2019, government debt accounted for 40.7% of GDP and public debt accounted for 49.4%).





Last year the world faced one of the worst economic crisis induced by the COVID-19 pandemic, which was and still is unpredictable globally and is significantly worse than the global financial crisis one decade ago. There is still great deal of uncertainty worldwide related to the duration and the intensity of this non-economic shock.

To mitigate the economic shock triggered by COVID-19 pandemic, the Government responded in a promptly manner by adopting set of economic measures through targeted and timely support aimed at protecting the liquidity of companies, preserving jobs and ensuring social protection for the unemployed and the vulnerable households. Undertaken economic measures have caused for expenditures to increase, as well as deficits accordingly. Budget deficit in 2020 Budget reached the level of 8.1% of GDP, while government debt surged to 51.2% of GDP, with public debt accounting for 60.2% of GDP.

Uncertainty and challenges still stand in 2021 as a result of the health crisis. Hence, comprehensive measures are necessary to be taken in this period as well, having a strategic effect on the economic recovery and the accelerated growth, subsidizing the most severely hit sectors in the economy, as well as reducing all non-productive budget spending to minimum. This implied for the budget deficit to be projected at a higher level of 4.9%, i.e. 6.5%, of GDP in 2021 Budget and 2021 Supplementary Budget respectively.

To the end of achieving the objectives aimed at coping with the COVID-19 pandemic, managing the Budget requires, as regards the expenditure side, for certain projected spending at the budget users, which are not essentially and directly related to coping with the pandemic, to be limited, as well as for funds to be allocated for the measures supporting the coping with the coronavirus pandemic and reducing its effects.

Health crisis has resulted in increased public spending geared towards supporting the economy, at the same time, postponing the medium-term framework for the projected fiscal targets, aimed at fiscal consolidation and fiscal sustainability. Need arose to speed

up the pace of the fiscal consolidation process by including more measures and activities, all to the end of achieving long-term sustainability of public finances.

Fiscal consolidation is a process of aligning the public revenues and expenditures by reducing the expenditures and/or increasing the revenues, for the purpose of reducing the budget deficit and the public debt.

In the period 2015 - 2020, total General Government<sup>1</sup> expenditures in the Republic of North Macedonia, as a percentage of GDP, accounted for 34.2% on average, being below the average of the Western Balkan countries (37.9% of GDP). Lower level of expenditures was registered in Kosovo and Albania, while Montenegro experienced significantly higher level of expenditures, accounting for almost 49% of GDP on average. Slovenia and Croatia, as EU Member States, registered similar level of total expenditures as percentage of GDP as in Serbia and Bosnia and Herzegovina, ranging from 41% to 43% on average in the period 2015 - 2020. Due to COVID-19 induced crisis, total expenditures in relation to GDP significantly surged at all countries in the region in 2020.

#### Total expenditures of General Government as % of GDP - comparative analysis

	2015	2016	2017	2018	2019	2020	Average
Albania	30.5	29.5	29.8	29.1	29.3	32.7	30.1
Bosnia and Herzegovina	44.6	42.0	41.4	40.2	41.1	47.8	42.8
Kosovo	27.3	27.6	27.5	28.9	29.3	32.2	28.8
Montenegro	50.0	48.8	46.8	46.5	44.9	54.5	48.6
North Macedonia	34.4	33.2	33.8	31.5	33.7	38.4	34.2
Serbia	42.7	41.9	40.4	40.9	42.3	49.4	42.9
<b>Western Balkan (average)</b>	38.3	37.2	36.6	36.2	36.8	42.5	37.9
Croatia	44.3	43.5	42.3	42.0	43.1	n.a.	43.1
Slovenia	43.6	40.8	39.8	39.4	39.2	47.7	41.7

Source: Ministry of Finance and State Statistical Offices of the respective countries and MoF calculations

## A. CENTRAL BUDGET

Budget of the Republic of North Macedonia covers the central budget and the budget of the social funds. The Table below shows the timeline for the state Budget execution, its structure, share in GDP and annual growth rates.

<sup>1</sup>Data refer to expenditures of the consolidated budgets of the General Government, which include the consolidated budgets of the central government, budgets of the Funds and budgets of the local government, according to the methodology applied by each of the countries.

Budget of the Republic of North Macedonia							
in mil MKD	2015	2016	2017	2018	2019	2020	Revised 2021
<b>TOTAL REVENUES</b>	<b>161,207</b>	<b>169,356</b>	<b>179,673</b>	<b>188,505</b>	<b>203,822</b>	<b>189,554</b>	<b>222,542</b>
<b>Taxes and Contributions</b>	140,826	150,362	157,537	170,994	178,895	173,464	193,068
Taxes	91,357	98,457	103,217	112,774	116,729	105,713	121,877
Contributions	47,900	50,300	52,890	56,538	62,166	66,564	69,195
<b>Non Tax Revenues</b>	12,859	12,973	13,396	12,260	18,687	11,173	17,586
<b>Capital Revenues</b>	2,265	1,977	1,316	2,197	2,369	1,846	3,187
<b>Foreign Donations</b>	4,733	3,648	7,171	2,978	3,871	3,071	8,701
<b>Revenues form repayment of loans</b>	524	396	253	76	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>180,632</b>	<b>185,407</b>	<b>196,561</b>	<b>200,071</b>	<b>217,445</b>	<b>243,421</b>	<b>268,772</b>
<b>Current Expenditures</b>	<b>161,965</b>	<b>168,433</b>	<b>176,698</b>	<b>187,924</b>	<b>199,633</b>	<b>227,306</b>	<b>238,968</b>
Wages and Allow ances	24,685	25,958	26,204	26,355	27,752	29,775	31,597
Goods and Srvices	18,088	16,702	15,344	14,554	16,266	15,423	21,965
Transfers	112,734	118,902	126,762	139,323	147,513	174,077	176,028
Transfers (SRA)	1,592	1,517	1,879	1,779	1,932	4,330	2,911
Social Transfers	82,903	89,005	94,690	100,678	108,129	117,799	122,627
Pension Fund	50,285	54,622	58,084	61,243	65,179	68,824	71,919
Unemployment benefits	1,482	1,216	1,305	1,922	2,498	2,691	3,029
Social Benefits	7,489	7,571	8,261	8,566	9,654	11,591	12,700
Health Care	23,647	25,596	27,040	28,947	30,798	34,693	34,979
Other Transfers	28,239	28,380	30,193	36,866	37,452	51,948	50,490
Transfers to Local Government	16,323	16,647	17,014	18,057	19,097	21,373	21,329
Agricultural Subsidies	6,583	5,596	6,600	7,039	7,399	7,088	7,275
Other Transfers	5,333	6,137	6,579	11,770	10,956	23,487	21,886
Interest	6,458	6,871	8,388	7,692	8,102	8,031	9,378
<b>Capital Expenditures</b>	<b>18,667</b>	<b>16,974</b>	<b>19,863</b>	<b>12,147</b>	<b>17,812</b>	<b>16,115</b>	<b>29,804</b>
<b>BUDGET BALANCE</b>	<b>-19,425</b>	<b>-16,051</b>	<b>-16,888</b>	<b>-11,566</b>	<b>-13,623</b>	<b>-53,867</b>	<b>-46,230</b>
<b>FINANCING</b>	<b>19,425</b>	<b>16,051</b>	<b>16,888</b>	<b>11,566</b>	<b>13,627</b>	<b>53,867</b>	<b>46,230</b>
<b>Inflow</b>	<b>47,846</b>	<b>36,836</b>	<b>34,470</b>	<b>39,706</b>	<b>29,687</b>	<b>95,695</b>	<b>89,583</b>
Other Inflow s	45	125	371	287	621	960	2,300
Foreign Loans	19,866	30,892	3,464	32,499	8,737	65,247	63,731
Deposits	10,265	-5,318	10,549	-9,636	1,271	-6,859	403
Domestic Borow ing	17,654	11,116	20,086	16,539	19,028	36,347	23,129
Sell of Shares	16	21	0	17	30	0	20
<b>Outflow</b>	<b>28,421</b>	<b>20,785</b>	<b>17,582</b>	<b>28,140</b>	<b>16,060</b>	<b>41,828</b>	<b>43,353</b>
Repayment of Principal	28,421	20,785	17,582	28,140	16,060	41,828	43,353
Foreign	22,131	11,609	8,281	15,928	5,746	26,567	37,234
Domestic	6,290	9,176	9,301	12,212	10,314	15,261	6,119



In relation to GDP							
	2015	2016	2017	2018	2019	2020	Revised 2021
<b>TOTAL REVENUES</b>	<b>28.8%</b>	<b>28.5%</b>	<b>29.1%</b>	<b>28.5%</b>	<b>29.6%</b>	<b>28.5%</b>	<b>31.5%</b>
<b>Taxes and Contributions</b>	25.2%	25.3%	25.5%	25.9%	25.9%	26.1%	27.3%
Taxes	16.3%	16.6%	16.7%	17.1%	16.9%	15.9%	17.2%
Contributions	8.6%	8.5%	8.6%	8.6%	9.0%	10.0%	9.8%
<b>Non Tax Revenues</b>	2.3%	2.2%	2.2%	1.9%	2.7%	1.7%	2.5%
<b>Capital Revenues</b>	0.4%	0.3%	0.2%	0.3%	0.3%	0.3%	0.5%
<b>Foreign Donations</b>	0.8%	0.6%	1.2%	0.5%	0.6%	0.5%	1.2%
<b>Revenues form repayment of loans</b>							
<b>TOTAL EXPENDITURES</b>	<b>32.3%</b>	<b>31.2%</b>	<b>31.8%</b>	<b>30.3%</b>	<b>31.5%</b>	<b>36.7%</b>	<b>38.0%</b>
<b>Current Expenditures</b>	<b>29.0%</b>	<b>28.3%</b>	<b>28.6%</b>	<b>28.4%</b>	<b>29.0%</b>	<b>34.2%</b>	<b>33.8%</b>
Wages and Allow ances	4.4%	4.4%	4.2%	4.0%	4.0%	4.5%	4.5%
Goods and Srvices	3.2%	2.8%	2.5%	2.2%	2.4%	2.3%	3.1%
Transfers	20.2%	20.0%	20.5%	21.1%	21.4%	26.2%	24.9%
Transfers (SRA)	0.3%	0.3%	0.3%	0.3%	0.3%	0.7%	0.4%
Social Transfers	14.8%	15.0%	15.3%	15.2%	15.7%	17.7%	17.4%
Pension Fund	9.0%	9.2%	9.4%	9.3%	9.5%	10.4%	10.2%
Unemployment benefits	0.3%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%
Social Benefits	1.3%	1.3%	1.3%	1.3%	1.4%	1.7%	1.8%
Health Care	4.2%	4.3%	4.4%	4.4%	4.5%	5.2%	5.0%
Other Transfers	<b>5.1%</b>	<b>4.8%</b>	<b>4.9%</b>	<b>5.6%</b>	<b>5.4%</b>	<b>7.8%</b>	<b>7.1%</b>
Transfers to Local Government	2.9%	2.8%	2.8%	2.7%	2.8%	3.2%	3.0%
Agricultural Subsidies	1.2%	0.9%	1.1%	1.1%	1.1%	1.1%	1.0%
Other Transfers	1.0%	1.0%	1.1%	1.8%	1.6%	3.5%	3.1%
Interest	1.2%	1.2%	1.4%	1.2%	1.2%	1.2%	1.3%
<b>Capital Expenditures</b>	<b>3.3%</b>	<b>2.9%</b>	<b>3.2%</b>	<b>1.8%</b>	<b>2.6%</b>	<b>2.4%</b>	<b>4.2%</b>
<b>BUDGET BALANCE</b>	<b>-3.5%</b>	<b>-2.7%</b>	<b>-2.7%</b>	<b>-1.8%</b>	<b>-2.0%</b>	<b>-8.1%</b>	<b>-6.5%</b>

Structure of the budget revenues and budget expenditures							
	2015	2016	2017	2018	2019	2020	Revised 2021
<b>TOTAL REVENUES</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Taxes and Contributions</b>	87.4%	88.8%	87.7%	90.7%	87.8%	91.5%	86.8%
Taxes	56.7%	58.1%	57.4%	59.8%	57.3%	55.8%	54.8%
Contributions	29.7%	29.7%	29.4%	30.0%	30.5%	35.1%	31.1%
<b>Non Tax Revenues</b>	8.0%	7.7%	7.5%	6.5%	9.2%	5.9%	7.9%
<b>Capital Revenues</b>	1.4%	1.2%	0.7%	1.2%	1.2%	1.0%	1.4%
<b>Foreign Donations</b>	2.9%	2.2%	4.0%	1.6%	1.9%	1.6%	3.9%
<b>Revenues form repayment of loans</b>	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%
<b>TOTAL EXPENDITURES</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Current Expenditures</b>	<b>89.7%</b>	<b>90.8%</b>	<b>89.9%</b>	<b>93.9%</b>	<b>91.8%</b>	<b>93.4%</b>	<b>88.9%</b>
Wages and Allow ances	13.7%	14.0%	13.3%	13.2%	12.8%	12.2%	11.8%
Goods and Srvices	10.0%	9.0%	7.8%	7.3%	7.5%	6.3%	8.2%
Transfers	62.4%	64.1%	64.5%	69.6%	67.8%	71.5%	65.5%
Transfers (SRA)	0.9%	0.8%	1.0%	0.9%	0.9%	1.8%	1.1%
Social Transfers	45.9%	48.0%	48.2%	50.3%	49.7%	48.4%	45.6%
Pension Fund	27.8%	29.5%	29.6%	30.6%	30.0%	28.3%	26.8%
Unemployment benefits	0.8%	0.7%	0.7%	1.0%	1.1%	1.1%	1.1%
Social Benefits	4.1%	4.1%	4.2%	4.3%	4.4%	4.8%	4.7%
Health Care	13.1%	13.8%	13.8%	14.5%	14.2%	14.3%	13.0%
<b>Other Transfers</b>	<b>15.6%</b>	<b>15.3%</b>	<b>15.4%</b>	<b>18.4%</b>	<b>17.2%</b>	<b>21.3%</b>	<b>18.8%</b>
Transfers to Local Government	9.0%	9.0%	8.7%	9.0%	8.8%	8.8%	7.9%
Agricultural Subsidies	3.6%	3.0%	3.4%	3.5%	3.4%	2.9%	2.7%
Other Transfers	3.0%	3.3%	3.3%	5.9%	5.0%	9.6%	8.1%
Interest	3.6%	3.7%	4.3%	3.8%	3.7%	3.3%	3.5%
<b>Capital Expenditures</b>	<b>10.3%</b>	<b>9.2%</b>	<b>10.1%</b>	<b>6.1%</b>	<b>8.2%</b>	<b>6.6%</b>	<b>11.1%</b>

Annual Growth Rates							
	2015/2014	2016/2015	2017/2016	2018/2017	2019/2018	2020/2019	Revised 2021/2020
<b>TOTAL REVENUES</b>	<b>10.5%</b>	<b>5.1%</b>	<b>6.1%</b>	<b>4.9%</b>	<b>8.1%</b>	<b>-7.0%</b>	<b>17.4%</b>
<b>Taxes and Contributions</b>	8.9%	6.8%	4.8%	8.5%	4.6%	-3.0%	11.3%
Taxes	9.0%	7.8%	4.8%	9.3%	3.5%	-9.4%	15.3%
Contributions	8.4%	5.0%	5.1%	6.9%	10.0%	7.1%	4.0%
<b>Non Tax Revenues</b>	20.9%	0.9%	3.3%	-8.5%	52.4%	-40.2%	57.4%
<b>Capital Revenues</b>	20.9%	-12.7%	-33.4%	66.9%	7.8%	-22.1%	72.6%
<b>Foreign Donations</b>	39.9%	-22.9%	96.6%	-58.5%	30.0%	-20.7%	183.3%
<b>Revenues form repayment of loans</b>	-28.0%	-24.4%	-36.1%	-70.0%			
<b>TOTAL EXPENDITURES</b>	<b>7.5%</b>	<b>2.6%</b>	<b>6.0%</b>	<b>1.8%</b>	<b>8.7%</b>	<b>11.9%</b>	<b>10.4%</b>
<b>Current Expenditures</b>	<b>7.7%</b>	<b>4.0%</b>	<b>4.9%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>13.9%</b>	<b>5.1%</b>
Wages and Allow ances	6.9%	5.2%	0.9%	0.6%	5.3%	7.3%	6.1%
Goods and Srvices	16.9%	-7.7%	-8.1%	-5.1%	11.8%	-5.2%	42.4%
Transfers	5.6%	5.5%	6.6%	9.9%	5.9%	18.0%	1.1%
Transfers (SRA)	65.5%	-4.7%	23.9%	-5.3%	8.6%	124.1%	-32.8%
Social Transfers	5.8%	7.4%	6.4%	6.3%	7.4%	8.9%	4.1%
Pension Fund	4.6%	8.6%	6.3%	5.4%	6.4%	5.6%	4.5%
Unemployment benefits	-12.9%	-17.9%	7.3%	47.3%	30.0%	7.7%	12.6%
Social Benefits	15.9%	1.1%	9.1%	3.7%	12.7%	20.1%	9.6%
Health Care	6.9%	8.2%	5.6%	7.1%	6.4%	12.6%	0.8%
<b>Other Transfers</b>	<b>2.8%</b>	<b>0.5%</b>	<b>6.4%</b>	<b>22.1%</b>	<b>1.6%</b>	<b>38.7%</b>	<b>-2.8%</b>
Transfers to Local Government	2.1%	2.0%	2.2%	6.1%	5.8%	11.9%	-0.2%
Agricultural Subsidies	-0.2%	-15.0%	17.9%	6.7%	5.1%	-4.2%	2.6%
Other Transfers	9.4%	15.1%	7.2%	78.9%	-6.9%	114.4%	-6.8%
Interest	26.9%	6.4%	22.1%	-8.3%	5.3%	-0.9%	16.8%
<b>Capital Expenditures</b>	<b>5.9%</b>	<b>-9.1%</b>	<b>17.0%</b>	<b>-38.8%</b>	<b>46.6%</b>	<b>-9.5%</b>	<b>84.9%</b>

Fiscal consolidation and efficient and sustainable reduction of the fiscal deficit require mixture of measures on both budget revenue and budget expenditure side. Limited resources and necessity to finance priority projects impose a need to strengthen the budget planning process, based on performance, rationalize certain expenditures and introduce adequate spending standards.

Fiscal management implies activity for continuous advancement of the budget planning system, better control over expenditures and undertaking certain draft measures, as follows:

1. EXPENDITURE SIDE
2. REVENUE SIDE
3. FINANCING

## A.1 EXPENDITURE SIDE OF THE CENTRAL BUDGET

Initial activities aimed at fiscal consolidation and strengthened budget planning require analysis and control over certain expenditures of the budget users, introduction of spending standards as regards the operating expenditures, as well as undertaking activities geared towards enhanced expenditure structure.

Key policies to achieve fiscal consolidation on the expenditure side of the central budget are the following:

1. policy for current expenditure reduction
2. policy on improvement of capital expenditure structure and execution

### *A.1.1 Current Expenditure Reduction Policy*

According to the budget classification, current expenditures cover wages and allowances, expenditures related to goods and services, transfers to LGUs, social allowances, subsidies, expenditures related to interest payments. In the period 2015-2021, current expenditures in the Budget of the Republic of North Macedonia amount to Denar 187 billion, accounting for 91.6% of the total expenditures, i.e. 29.9% of GDP. They experienced an upward trend in the period 2015-2019 by 5.8% (Denar 9.8 billion) on average annually, increasing by 13.9% (Denar 27.6 billion) in 2020 alone as a result of the increased expenditures related to the support measures amid COVID-19 pandemic.

For the purpose of comparing the data with other countries, General Government Budget has been analyzed. Hence, current expenditures accounted for the most in the total expenditures of the General Government Budget, amounting between 87.8% and 92% in the period 2015-2020, or 89.6% on average, whereby share of current expenditures experienced an upward trend starting 2018. In relation to GDP, current expenditures in the respective period accounted for 30.6% on average, with no significant deviations over the years, except for 2020 when, as a result of the undertaken measures for coping with the pandemic effects, current expenditures accounted for 35.3% of GDP. For comparison purposes, share of current expenditures in total expenditures in the period 2015-2020 was above the average of the Western Balkan countries (WBC), accounting for around 85%, thereby taking into account the significant differences among certain countries. Hence, in the respective period, in Kosovo, current expenditures accounted for 75% of the total expenditures on average, they accounted for 79.9% and 82.5% in Montenegro and Albania respectively, while share of current expenditures in Serbia and Republic of North Macedonia of close to 90% was above the WBC average. As regards Bosnia and Herzegovina, current expenditures accounted for the most, 92.4% on average, in the total expenditures. In Slovenia, share of current expenditures in the total expenditures was closer to the WBC average, although above the average, while current expenditures in Croatia accounted for 96.4% on average in the period 2015-2019.

Analyzed with respect to GDP, current expenditures of the Republic of North Macedonia were below WBC level, which accounted for 32.9% on average in the period

2015-2020. Current expenditures as a percentage of GDP varied considerably between countries, ranging from 24.8% in Albania to 39.6% in Bosnia and Herzegovina. Although share of current expenditures in Montenegro in the total expenditures is lower, they are at relatively high level in relation to GDP compared to the other countries (38.8% on average). In Slovenia and Croatia, share of current expenditures in GDP is higher, accounting for 37.5% and 41.5% respectively.

**Share of current expenditures in total expenditures (%)**

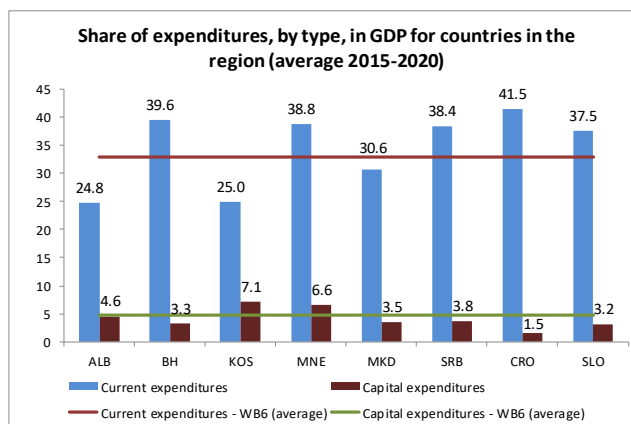
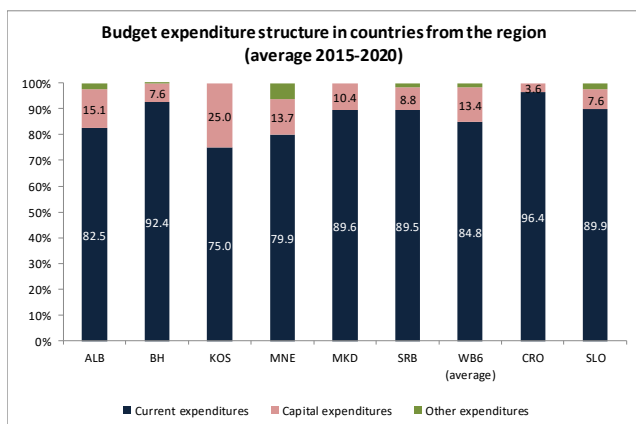
	2015	2016	2017	2018	2019	2020	Average
Albania	80.2	85.0	82.9	83.4	84.7	78.5	82.5
Bosnia and Herzegovina	92.2	93.1	94.5	93.1	92.4	89.3	92.4
Kosovo	74.0	73.4	73.3	72.5	74.3	82.8	75.0
Montenegro	75.7	86.9	80.2	80.5	77.3	78.9	79.9
North Macedonia	87.8	88.5	87.7	92.0	89.9	91.8	89.6
Serbia	92.0	90.4	90.8	89.1	87.4	87.2	89.5
<b>Western Balkan (average)</b>	83.6	86.2	84.9	85.1	84.4	84.8	84.8
Croatia	97.5	96.3	96.3	96.3	95.8	n.a.	96.4
Slovenia	86.7	91.6	91.5	89.7	89.3	90.6	89.9

Source: Ministry of Finance and State Statistical Offices of the respective countries and MoF calculations

**Current expenditures as % of GDP**

	2015	2016	2017	2018	2019	2020	Average
Albania	24.5	25.0	24.7	24.3	24.8	25.7	24.8
Bosnia and Herzegovina	41.1	39.1	39.1	37.4	38.0	42.7	39.6
Kosovo	26.0	26.6	26.7	27.5	25.7	17.2	25.0
Montenegro	37.9	42.4	37.5	37.5	34.7	43.0	38.8
North Macedonia	30.2	29.4	29.6	29.0	30.3	35.3	30.6
Serbia	39.3	37.9	36.7	36.4	36.9	43.1	38.4
<b>Western Balkan (average)</b>	33.2	33.4	32.4	32.0	31.7	34.5	32.9
Croatia	43.2	41.9	40.7	40.5	41.3	n.a.	41.5
Slovenia	37.9	37.4	36.4	35.3	35.0	43.2	37.5

Source: Ministry of Finance and State Statistical Offices of the respective countries and MoF calculations



## A) Wages and allowances

### State of Play

Expenditures related to wages and allowances at central level in the period 2015-2020 amounted to around Denar 26.8 billion on average, which their average shares in relation to total expenditures accounting for around 13.2%. During the respective period, this type of expenditures registered upward trend of average annual increase of 4.2%. In relation to GDP, their average share accounted for 4.3%. Increased wage bill during the analyzed period was due to the following:

- 5% wage increase for the employees at the budget users in the last quarter of 2019
- additional increase of wages in certain sectors:
  - wages of education workers at primary and secondary schools, starting in September 2018 by 5%, September 2019 by 5% and January 2020 by 10%,
  - defense sector, by 10% for the Army starting January 2018,
  - wages in the health sector increased by 10% starting January 2019, 5% to 25% wage increase starting from February 2020 and bonus to healthcare staff for pandemic work,
  - new collective agreement in the culture sector in 2020,
  - new Law on Parliament in 2020,
  - wages increase by 30% at the State Commission for Prevention of Corruption,
  - wages at the Constitutional Court increased by 30%,
  - wages at the Financial Police Office increased by 30%,
  - right to 5%-30% wage allowances at judiciary and public prosecution,
  - increased wages at kindergartens and institutions and centers in line with the Law on Child Protection,
  - employees at prison police and expert associates at the penitentiary institutions,
  - wage increase by 30% of customs and tax officers,
  - vacation allowance in line with the Sector Collective Agreement,
  - special legal solutions for the Operational Technical Agency and the National Security Agency,
  - higher salaries at MoI, mainly as a result of overtime work,
  - wage increase by 30% at the Agency for Real Estate Cadaster in 2019,

- Forest Police Office - in accordance with the Collective Agreement 2021.

Analysis of the number of employees shows relatively the same number of employees at central level in the period 2015-2020, while number of employees at local level increased, mostly at Ministry of Education and Science, Ministry of Culture and Ministry of Labor and Social Policy (kindergartens).

**NUMBER OF EMPLOYEES AND SALARIES PAID 2015-2021**

	Central level		Funds		Local level		Budget of RNM	
year	number of employees	total salary	number of employees	total salary	number of employees	total salary	total number of employees	total salary
2015	51,282	23,942,734,280	1,996	744,164,543	33,910	11,763,006,984	87,188	36,449,905,807
2016	51,347	25,178,849,049	2,088	777,979,022	34,191	12,018,106,602	87,626	37,974,934,673
2017	50,602	25,438,142,441	1,989	766,438,453	34,246	10,923,668,156	86,837	37,128,249,050
2018	50,722	25,610,020,222	2,036	745,372,562	34,842	12,563,760,680	87,600	38,919,153,464
2019	51,331	26,964,013,443	1,956	788,067,237	35,146	13,159,252,700	88,433	40,911,333,380
2020	51,406	28,927,448,605	1,963	846,909,137	35,198	15,145,933,696	88,567	44,920,291,438
2021	51,072	30,703,896,000	1,977	892,930,000	35,208	15,332,166,602	88,257	46,928,992,602

\*for 2021 the amount is a planned budget

\*\*at the local level, the employees in the schools, kindergartens, cultural centers and nursing homes are included, which are financed through grants to the LSGU

	Budget of RNM		Municipalities		PHF		General budget	
year	number of employees	total salary	number of employees	total salary	number of employees	total salary	total number of employees	total salary
2015	87,188	36,449,905,807	5,744	2,326,829,231	22,181	8,023,696,000	115,113	46,800,431,038
2016	87,626	37,974,934,673	5,677	2,348,927,603	22,181	8,542,998,000	115,484	48,866,860,276
2017	86,837	37,128,249,050	5,678	2,346,089,007	19,986	8,793,522,000	112,501	48,267,860,057
2018	87,600	38,919,153,464	5,693	2,388,355,265	19,338	9,030,918,000	112,631	50,338,426,729
2019	88,433	40,911,333,380	5,655	2,493,054,586	19,785	10,309,651,000	113,873	53,714,038,966
2020	88,567	44,920,291,438	5,751	2,591,054,303	20,538	12,122,962,000	114,856	59,634,307,741
2021	88,257	46,928,992,602	5,751	3,196,062,405	20,455	12,964,000,000	114,463	63,089,055,007

	General budget		Public enterprises		Public sector	
year	number of employees	total salary	number of employees	total salary	total number of employees	total salary
2015	115,113	46,800,431,038	16,774	8,712,598,000	131,887	55,513,029,038
2016	115,484	48,866,860,276	16,713	9,173,009,000	132,197	58,039,869,276
2017	112,501	48,267,860,057	16,227	9,157,823,000	128,728	57,425,683,057
2018	112,631	50,338,426,729	15,731	9,249,402,000	128,362	59,587,828,729
2019	113,873	53,714,038,966	15,410	9,655,486,000	129,283	63,369,524,966
2020	114,856	59,634,307,741	15,696	10,037,587,000	130,552	69,671,894,741
2021	114,463	63,089,055,007	15,750	9,398,595,000	130,213	72,487,650,007

\*the number of employees in the municipal public enterprises is not included

## Analysis of the Number of Employees in the Public Sector in the Countries in the Region

Share of employees in the public sector in the total number of employees in the Republic of North Macedonia in 2020 accounted for 24.3%, being as the Western Balkan countries' average. However, significant differences exist across the countries, with the largest deviation registered in Albania where share of employees in the public sector in the total number of employees is undoubtedly the lowest, accounting for 14.4%, while share in Kosovo, Montenegro and Bosnia and Herzegovina (as well as Croatia) is the highest, exceeding 28%.

Country	Total number of employees (in thousands)*	Employees in the public sector (in thousands)*	% of employees in the public sector	Data for:	Population (in thousand inhabitants)**	Employees in the public sector (per 1000 inhabitants)	GDP per capita (PPP 2017 international dollars)**
<b>North Macedonia</b>	<b>754.8</b>	<b>183.1</b>	<b>24.3%</b>	<b>2020</b>	<b>2,076</b>	<b>88.2</b>	<b>15,842</b>
Albania	1264.7	182.6	14.4%	2019	2,865	63.7	13,478
Serbia	2893.7	719.2	24.9%	2020	6,936	103.7	18,149
Kosovo	343.9	99.0	28.8%	2020	1,807	54.8	10,687
Bosnia and Herzegovina	1173.1	329.2	28.1%	2020	3,279	100.4	14,263
Montenegro	182.4	51.5	28.2%	2017	623	82.7	18,250
WB6 average	1102.1	260.8	24.8%	/	2,931	82.2	15,112
Croatia	1679.5	504.9	30.1%	2019	4,045	124.8	26,274
Slovenia	1020.7	239.2	23.4%	2018	2,096	114.1	36,786

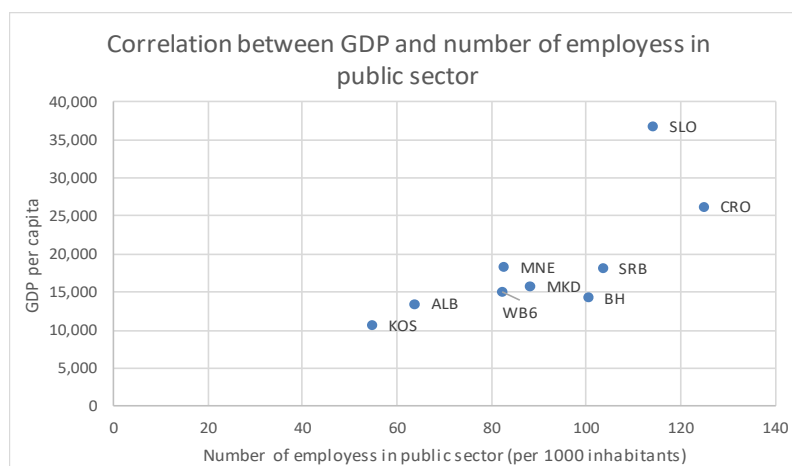
\*Source: ILO, Labour Force Survey, except for Montenegro: Government of Montenegro (Proposal of the plan of optimization of public administration of Montenegro 2018-2020)

\*\*Source: IMF, WEO April 2021

Should countries' population be taken into account, public sector in North Macedonia employs 88.2 persons per each 1,000 inhabitants, being slightly higher than the average in the Western Balkan countries, accounting for 82.2 persons. Number of employees per 1,000 inhabitants is the highest in Serbia and Bosnia and Herzegovina, exceeding 100 persons, being the lowest in Kosovo and Albania, ranging between 55 and 65 persons. Number of employees in the public sector in relation to the population in the analyzed countries, being EU Member States, i.e. Croatia and Slovenia, is slightly higher, accounting for 124.8 and 114.1 persons respectively.

The data show that the number of employees in the public sector per each 1,000 inhabitants is closely related to the economic development of the respective country, measures by GDP per capita. Thereby, countries with higher GDP per capita (Slovenia and Croatia) employ the most persons in the public sector, while the least developed countries, such as Albania and in particular Kosovo, employ the lowest number of persons in the public sector per capita.





### Analysis of the Number of Employees in the Public Administration in the Countries in the Region

Labor Force Surveys (LFS) gather data on the number of employees in the sector Public Administration and Defense; Compulsory Social Security. According to LFS, the public administration employed 55,000 persons in North Macedonia in 2020. Analyzed by the share of employees in the public administration in the total number of employees, this indicators in North Macedonia accounts for 6.9%, also being below the Western Balkans' average of 8.0%. As regards the countries in the region, share of employees in the public administration in the total number of employees ranges from 5.2% in Serbia to 11.9% in Montenegro.

Country	Total number of employees (in thousands)*	Employees in the public administration (in thousands)*	% of employees in the public administration	Population (in thousand inhabitants)**	Employees in the public administration (per 1000 inhabitants)	GDP per capita (PPP 2017 international dollars)**
<b>North Macedonia</b>	<b>794.9</b>	<b>55.0</b>	<b>6.9%</b>	<b>2,076</b>	<b>26.5</b>	<b>15,842</b>
Serbia	2894.8	150.1	5.2%	6,936	21.6	18,149
Kosovo	350.9	23.5	6.7%	1,807	13.0	10,687
Bosnia and Herzegovina	813.1	76.1	9.4%	3,279	23.2	14,263
Montenegro	176.7	21.0	11.9%	623	33.7	18,250
WB6 average	1006.1	65.1	8.0%	2,944	23.6	15,438
Croatia	1634.0	121.0	7.4%	4,045	29.9	26,274
Slovenia	984.0	58.0	5.9%	2,096	27.7	36,786

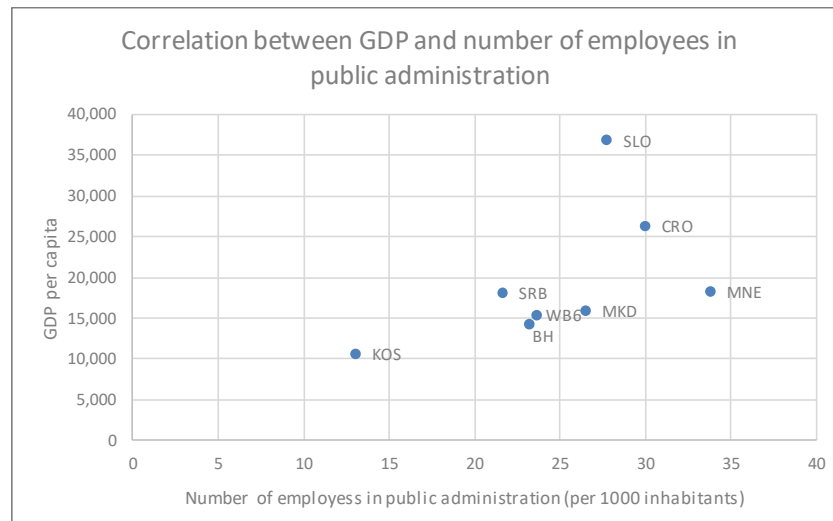
\*The data are taken from the state statistical offices of the countries and refer to 2020. Taken from Labour force surveys; sector Public administration and defence, compulsory social security

\*\*Source: IMF, WEO April 2021

With respect to North Macedonia, 26.5 persons are employed in the public administration per each 1,000 persons, which is slightly below the average of the WB countries, which accounts for 23.6 persons. Significant differences across the countries are also observed at this indicator, whereby the number of employees in the public administration per 1,000 persons is undoubtedly the lowest in Kosovo (13.0 employees

per 1,000 inhabitants), and the highest in Montenegro (33.7 employees per 1,000 inhabitants). Number of employees in the public administration per capita is higher in the countries in the region, being EU Member States (Croatia and Slovenia) compared to the WBC, however it is below 30 employees per 1,000 persons.

Moreover, number of employees in the public administration per capita is higher in the economically more developed countries (Croatia and Slovenia), being the lowest in the least developed country (Kosovo).



**Objective:** Increasing the efficiency of the public administration operations by optimizing and rationalizing the working posts and introducing reward and penalty system

**Draft measures/recommendations for consolidation of expenditures related to wages and allowances:**

**I. Implement measures and activities under the Government Program pertaining to rationalization of employees in the public sector**

- employment optimization
- no new employments for the vacant positions on the basis of retirement, except for the purpose of implementing reform processes
- ensuring greater mobility of the employees within the institution itself, as well as among institutions
- should a necessity to fill in certain position be determined, such position to be filled in from institutions' surplus employees, and should no such personnel exist in the institutions, the Government should decide upon the respective engagement

**II. Harmonizing the wages according to the working positions**

- Projected wage amount not to be increased within the Budget structure
- Reducing the overtime work expenditures (not to exceed 30% of the base wage), greater control when approving overtime hours, as well as greater use of compensatory time instead of overtime pay
- as regards culture sector, amendments to the legal solutions preventing the gained working experience to be basis for higher title, i.e. higher wage by force of law
- as regards education sector, amendments to the legal solution deleting the right to transforming the employment of part-time employees, following the expiry of the 2-year period, into full-time employment only with a consent of the MoES.

**III. Policies for sustaining employment in the public sector**

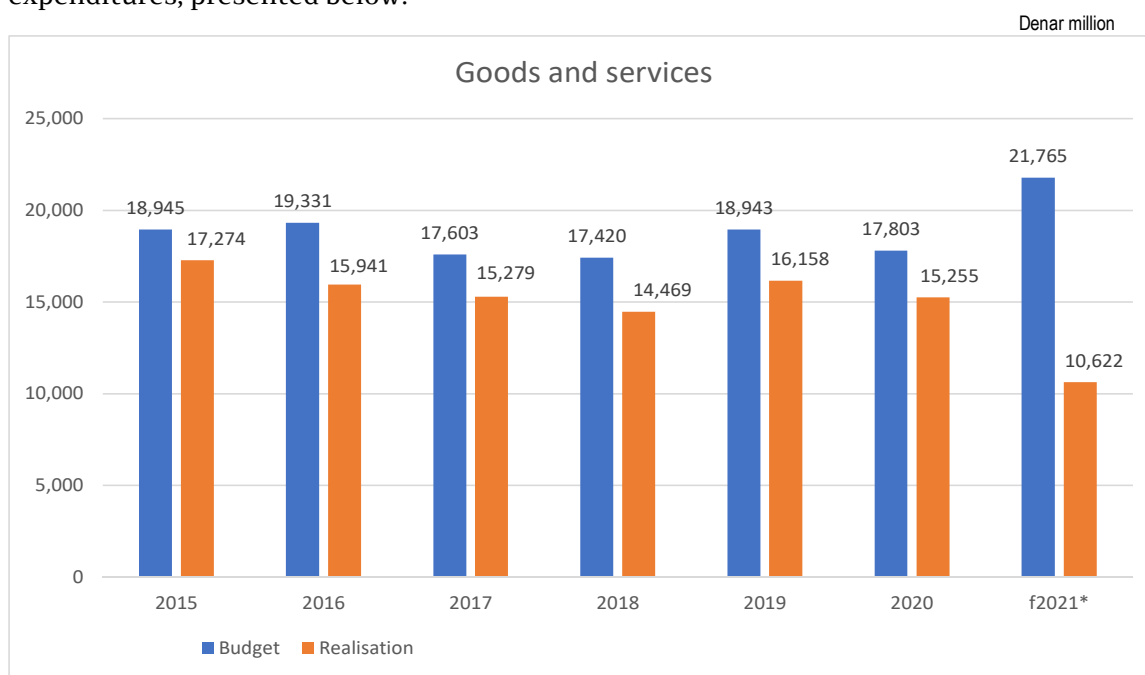
**B) Goods and Services**

**State of Play**

Expenditures related to goods and services at central level in the period 2015-2020 amounted to around Denar 16 billion on average, which their average shares in relation to total expenditures accounting for around 8%. During the respective period, such expenditures experienced a downward trend, accounting for 10% in the total expenditures in 2015 to 6.3% in 2020. This substantiates the Government's commitment to continuously reducing the less productive expenditures in the Budget of the Republic of North Macedonia.

During the analyzed period, under-execution of expenditures related to goods and services in relation to the annual projections by around 15.3% on average was registered. Thus, it is of crucial importance for the budget users to adhere to projecting the expenditures related to goods and services in a realistic manner even in the budget planning process. Furthermore, in order for the downward trend of expenditures related to goods and services to continue, budget users are to adhere to the principles of cost-effectiveness and efficiency when planning and executing the expenditures so as to contribute to strengthening the budget structure. Analyses of the trends of expenditures

by type in the period 2015-2020 showed the possibility for rationalizing certain expenditures, presented below.



\*realization till 20.08.2021

**Objective:** More efficient use of operating resources by improving the planning and the execution of operating expenditures, reducing the non-productive expenditures, as well as introducing spending standards.

## **Draft measures for consolidation of expenditures related to goods and services**

I. Budget users to project **the expenditures related to goods and services more realistically**, taking into account their continuous lower execution in relation to the projections

### **II. Reduction of overhead expenses**

- setting spending standards as regards overhead expenses at employee level
- reducing phone-related expenses
  - rationalizing the use of mobile phones for business purposes and harmonizing the requirements for use of mobile phones for business purposes in the institutions
  - reducing the usage limit for mobile phones for business purposes

### **III. Reduction of operating expenses**

- reducing the travel expenses in the country and abroad
  - deleting the article in the Law on Budget Execution providing for right to travel expenses in the country
  - reducing the number of members of a delegation travelling abroad
- Reducing the expenditures related to fuel and oil
  - adopting/amending the Decree on Use of Official Vehicles
  - stringent control over the use of official vehicles strictly for business purposes, whereby the use should be conditional upon an order containing information on the destination and the purpose of the visit, with the information aligned with the navigation devices
  - rationalizing and selling official vehicles due to their insufficient usage
- reducing the expenditures related to materials and sundries and other material (more rational use of office supplies, as well as copying and printing services)
- reducing the expenditures related to entertainment, sponsorship and advertising
- reducing the expenses related to leasing and renting space and equipment
- curtailing, i.e. reducing to minimum, the procurement of vehicles on the basis of lease

### **IV. Reducing the compensation for persons engaged on contractual basis**

- limiting the conclusion of contractual agreements (stringent control over the justification of engagement of persons on the basis of contractual agreement, as well as engagement of consultants)
- each institution to undertaken measures to decrease the amount of contractual services
- reducing the amount of remuneration for the members of management and supervisory boards, as well as remuneration for engagements in commissions, working groups and working bodies, as well as reducing the number of members
- reducing the expenditures related to temporary employments by reducing the number of persons engaged as temporary employed

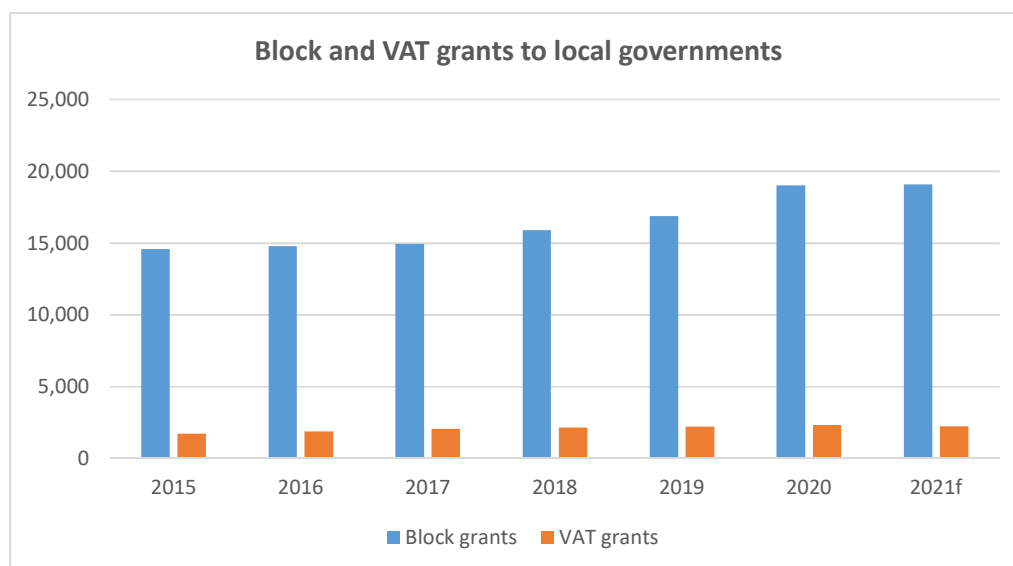
## C) Grants to LGUs

### State of Play

Local government is financed from own sources of revenues and grants from the central budget in the form of block grants and VAT grants for the transferred competences. In the period 2015-2020, increased grant amounts were registered which the line ministries transferred to the municipalities, whereby wage-related expenditures predominated in the expenditure structure with around 80% as a result of the increased wages and increased number of employees in the areas of education, culture and child protection.

Denar million

year	Block grants	VAT grants	Total grants to LG	Total budget expenditures	In % of total expenditures	In % of GDP	annual growth	GDP
2015	14,590	1,733	16,323	180,632	9.0%	2.9%		558,954
2016	14,771	1,876	16,647	185,407	9.0%	2.8%	2.0%	594,795
2017	14,947	2,067	17,014	196,561	8.7%	2.8%	2.2%	618,106
2018	15,903	2,154	18,057	200,071	9.0%	2.7%	6.1%	660,878
2019	16,886	2,211	19,097	217,445	8.8%	2.8%	5.8%	689,425
2020	19,031	2,342	21,373	243,421	8.8%	3.2%	11.9%	664,010
2021f	19,091	2,238	21,329	268,772	7.9%	3.0%	-0.2%	706,646
average 2015-2021	16,460	2,089	18,549		8.7%	2.9%	4.6%	



To the end of enhancing the fiscal capacity and increasing the municipal revenues, percentage of PIT revenues is planned to gradually increase from 3% to 6%, with percentage of VAT grants increasing from 4.5% to 6%. Thereby, Performance Fund and Equalization Fund will be introduced. Municipalities meeting the requirements and the

criteria will be allocated additional resources from the respective Funds. Fiscal impact therefrom is presented below:

Denar million

Personal income tax						
	2021	2022	2023	2024	2025	2026
Planned in Fiscal Strategy	20.790	22.848	25.133	28.149	31.245	34.682
3% for LSGU according to permanent law	624	685	754	844	937	1.040
New proposal with dynamics 4% -2022, 5% -2023 and 6% - 2024	624	914	1.257	1.689	1.875	2.081
Negative effect of increasing personal income tax from 3% to 6%	0	-228	-503	-844	-937	-1.040

Value Added Tax (VAT)						
	2021	2022	2023	2024	2025	2026
Planned in Fiscal Strategy	54.219	59.654	65.619	73.493	81.577	90.551
4.5% for LSGU according to permanent law	2.238	2.440	2.684	2.953	3.307	3.671
New proposal with dynamics 5%-2022, 5.5-2023 and 6% - 2024	2.238	2.983	3.609	4.410	4.895	5.433
Negative effect of increasing of VAT from 4,5% to 6%	0	-543	-925	-1.457	-1.587	-1.762

Total effect - VAT and personal tax	0	-771	-1.427	-2.301	-2.525	-2.803
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**Objective:** Better quality services at the decentralized competences of the municipalities by redefining the criteria for allocation of funds and more efficient and earmarked use of grant funds.

#### Draft recommendations for consolidation of grants to LGUs:

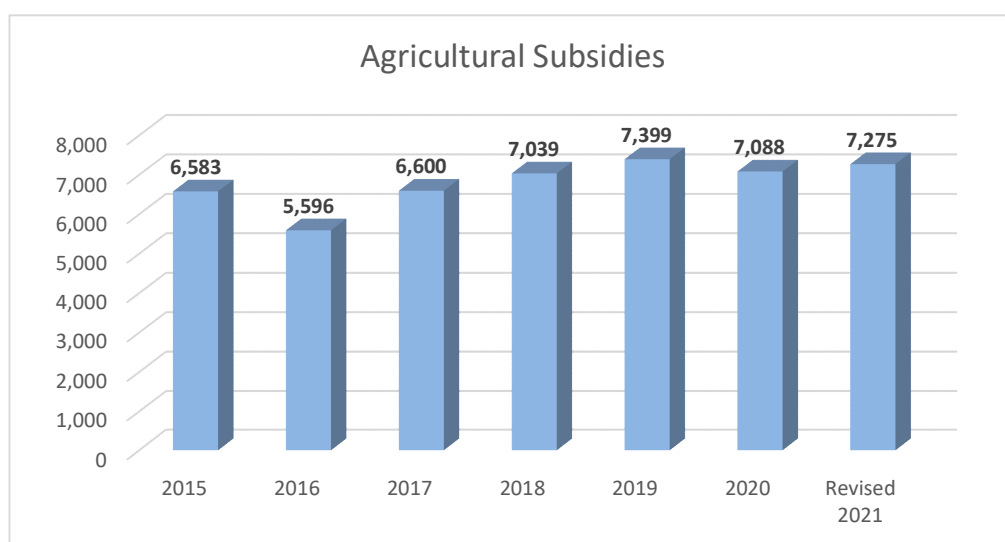
- analyzing the grants allocated to LGUs, revising the criteria for allocation of grants to the municipalities when the municipalities do not use these funds and have a carried-forward surplus of funds
- municipalities to return the remaining unused funds allocated as grants on the basis of transferred competences to the Budget of the Republic of North Macedonia
- as regards primary education, rationalizing the network of primary schools and aligning the number of students with the number of teachers
- as regards child protection, optimal usage of available capacities and considering the possibility to increase the day care fee paid by the parents, taking into account that the fee has remained unchanged in the past years, besides the increased costs of living
- as regards the culture sector, it is necessary to consider the possibilities to collect more funds generated from self-financing activities, by organizing and holding more cultural events
- As regards firefighting, comprehensive analysis is to be made with respect to the necessary number of firefighters, as well as alignment of wages and allowances

## D) Expenditures related to Subsidies and Transfers

### State of Play

In the period 2015-2020, expenditures related to subsidies and transfers amounted to Denar 8.7 billion on average, accounting for 4.2% of the total expenditures or 1.4% of GDP. Agricultural subsidies accounted for the most in this category of expenditures, amounting to Denar 6.7 billion on average or accounting for 1.1% of GDP. The subsidies are projected within the budget of the Agency for Financial Support in Agriculture and Rural Development, and are implemented through the Program for Financial Support to Agriculture and Program for Financial Support to Rural Development.

Agricultural subsidies are mainly intended for supporting the encouragement of agriculture production, investments in modernization of agricultural holdings, rehabilitation and development of villages, direct payments for crop production of various agricultural, garden and grain crops and fruit plantations, assistance to livestock sector, subsidizing the expenditures for procurement of fuel for agricultural machinery.



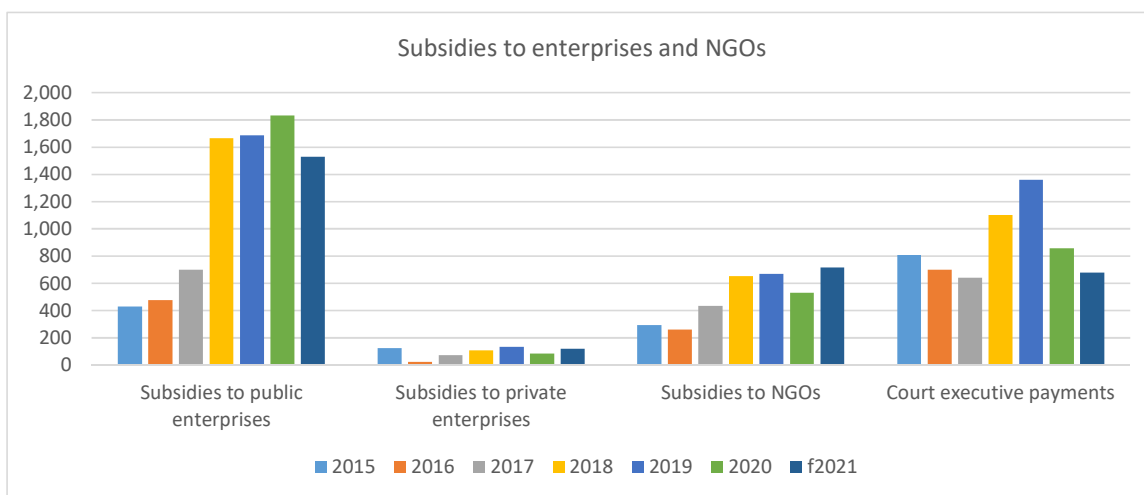
Agricultural subsidies experienced an upward annual trend, accounting for 1.1% of GDP on average. In addition, real annual growth of the agriculture sector experienced large oscillations throughout the years, with -0.2 on average in the analyzed period. Share of agriculture in GDP is almost at the same level throughout the years, accounting for 8.7% on average.

	2015	2016	2017	2018	2019	2020
Annual growth in the Agricultural Sector (in %)	1.9	-0.4	-12.5	8.3	-0.3	1.7
Share of agriculture in GDP (in %)	9.7	9.2	7.9	8.5	8.0	9.1

Taking into account the amount of agricultural subsidies allocated from the Budget, as well as their effects on both the agriculture and the economy, measures for their rationalization are proposed below.



Subsidies and transfers category also includes subsidies to public and private enterprises, subsidies to NGOs, transfers to political parties, expenditures related to writs of execution, scholarship, national awards, transfers at retirement and other transfers. Other transfers include expenditures related to the measures for coping with the pandemic as support to the economy.

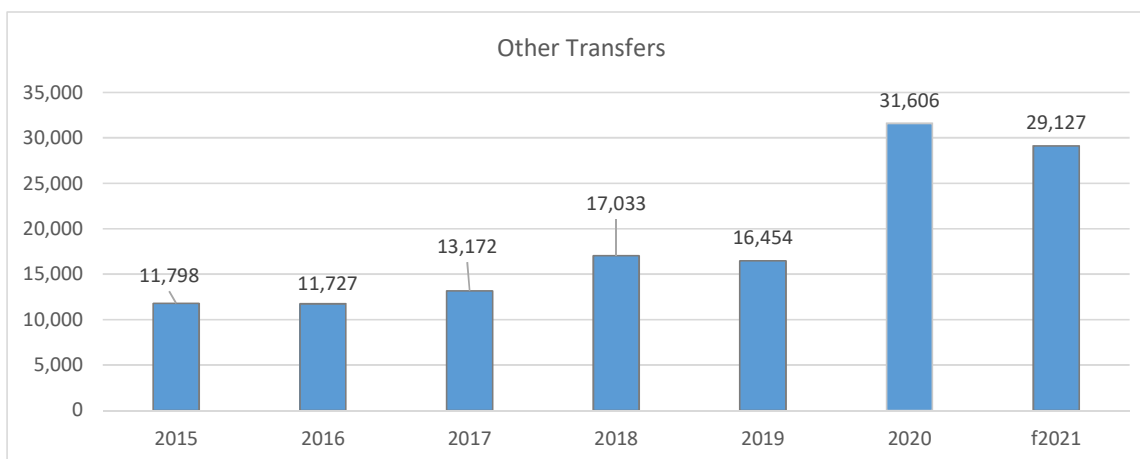


As regards the other subsidies, subsidies to private enterprises (PE for National Broadcasting since 2018) experienced an upward trend throughout the years, as well as the subsidies to NGOs (including the transfers to political parties). In addition, public enterprises listed in the Table are allocated funds from the state Budget and other expenditure categories, apart from the other subsidies category.

<i>Subsidies and transfers to Public enterprises and State-owned companies</i>							
<i>Public enterprise / State-owned companies</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Railways of the Republic of North Macedonia Transport, JSC - Skopje	390.000.000	437.300.000	458.361.512	430.000.000	430.010.000	414.999.108	380.000.000
Public enterprise for railway infrastructure Railways of Republic of North Macedonia - Skopje	199.995.338	179.992.737	219.712.525	291.864.503	545.917.359	346.845.667	318.519.000
Public enterprise "National Television" - Skopje	0	0	149.000.000	886.549.999	894.000.000	856.750.000	826.950.000
Public enterprise "National Broadcasting" - Skopje	0	0	39.000.000	232.050.000	234.000.000	224.250.000	216.450.000
Agency for audio and audiovisual media services	0	0	12.000.000	71.400.000	72.000.000	69.000.000	66.600.000
Media information agency - Skopje	40.200.000	41.000.000	41.000.000	44.000.000	55.000.000	44.000.000	40.000.000
State owned limited liability company established by one person „Naftovod“ - Skopje	9.975.795	3.600.000	7.800.000	8.500.000	7.400.000	7.355.585	7.962.600
JSC Water Economy of Republic of North Macedonia	0	2.264.610	50.143.855	51.208.428	2.834.989	1.373.371	11.000.000

Public enterprise for managing forests „National Forests“ - Skopje	32.259.848	0	593.755	226.139	5.973.016	100.383.088	100.000.000
„Boris Trajkovski“, state owned limited liability company established by one person - Skopje	141.000.000	180.000.000	0	16.100.000	60.000.000	0	
PE Collector System	0	0	0	0	184.996.528	344.557.529	60.000.000
Public enterprise for management of pastures - Skopje	0	2.379.047	595.527	978.349	261.762	20.585.312	30.000.000
<i>Total:</i>	<i>813.430.981</i>	<i>846.536.394</i>	<i>978.207.174</i>	<i>2.032.877.417</i>	<i>2.492.393.654</i>	<i>2.430.099.660</i>	<i>2.057.481.600</i>

The category other transfers (which includes agricultural subsidies) also registered significant increase in 2018 in particular (transfers to LGUs to settle debts in the amount of around Denar 3 billion), as well as in 2020 (COVID-19 related measures in the amount of around Denar 15 billion) and in 2021 (COVID-19 related measures projected in the amount of around Denar 9.5 billion).



**Objective:** Ensuring a more positive impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers

### **Draft measures/recommendations for the subsidies and transfers category**

#### **-Agriculture sector:**

- Reviewing the agricultural subsidies system for the purpose of their reduction and/or rationalization
- More appropriate targeting of agricultural subsidies to the end of introducing stricter criteria for their approval (expanding the arable lands, limiting the production/products and prices)
- Strengthened control over already approved subsidies
- Creating measures aimed at adjusting to the European policies
- Creating measures aimed at improving the competitiveness of the agricultural sector,
- better informing, education of the agricultural workers on the benefits of investing in machinery and manufacturing capacities,
- Using the local chains of supply of agricultural products to the end of promoting local food at local restaurants
- Encouraging creation of product value added
- Stimulating the farmers to purchase new equipment and to build agricultural capacities
- Reducing the indemnification to farmers in case of natural disasters so as to stimulate them to make use of insurance, as well as calculating favorable insurance premium
- Benefits for the farmers having merged the agricultural production
- Creating a list of agricultural, garden and grain crops for which there are favorable growing conditions on our territory, possibility for their marketing and long-term subsidizing (3-5 years)
- Programs to be intended for subsidizing farmers alone, not public institutions, such as National Hydrometeorological Service, Fund for Innovations and Technology Development, etc.
- measures and the amounts not to undergo frequent changes and reallocations (adding new measures) throughout the year
- Subsidizing the marketing of agricultural products to create towards subsidizing fairs yielding effects from participating therein, reducing both the number of fairs and the number of participants
- Arrears to be settled first, afterwards the funds to be allocated for new measures

#### **-Education**

- Optimizing the network of schools and the need to close part of them (rural areas - modular schools), leading to surplus teaching staff on one hand, and subsequently to reducing MES expenditures on the other
- As regards scholarship, which is part of the pupils' standard, need arises to reduce the types of scholarship, as well as the number of beneficiaries, in line with the labor market demand and education profiles to be funded
- With respect to scholarship which is part of the students' standard and is awarded to students in first, second and third cycle of studies in the country and abroad, need arises to revise the types of scholarship and the number of beneficiaries, in line with the with the labor market demand and education profiles to be funded, as well as to revise the adopted decision to pay the same amount (Denar 6,000) of scholarship for all types. Need also arise to allow award of scholarship for second and third cycle of studies in the country, not only when studying abroad, as was the case in the past 9 years. As for the need for fiscal consolidation and expenditure reduction, it is necessary to revise the adopted decision, all to the end of reducing the additional burden on the Budget
- With respect to scholarship awarded in first, second and third cycle of studies abroad, we propose to limit the number of scholarship awarded for studying abroad, precisely determining the specific profile of studies, in line with the labor market demand in the country, as well as to strengthen the control over the requirements to be met after completing the studies abroad (returning to the home country, employment in specific sector, etc.)

#### **-Culture**

- Determining stricter criteria on the basis of which the Ministry of Culture will adopt a financing decision When determining the criteria, following should be taken into account: scope of operations of the organization/institution which the funds are allocated to, period of active operating of the organization, scope of interested parties included and manner of registration of the organization, i.e. whether they are registered for performing activities in the filed of culture

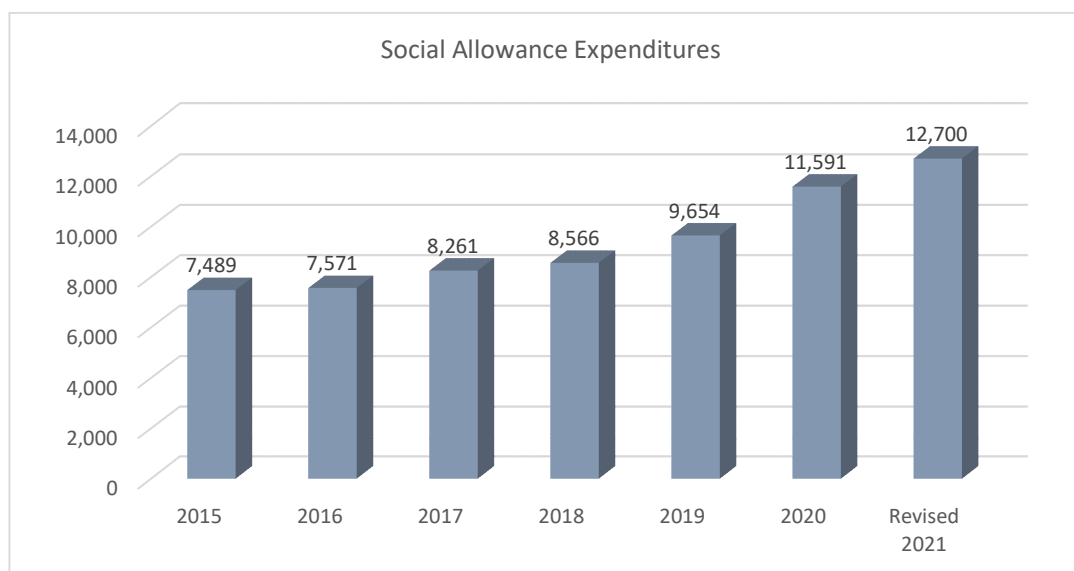
#### **-Other areas**

- Reduce subsidies to NGOs
- Reduce subsidies to public enterprises/companies
- Reduce the amount and recipients of scholarship and awards in the area of sports, as well as modify and amend the legal solutions, all to the end of reducing the funds transferred to sports federations and youth associations

## E) Expenditures related to Social Allowances

### State of Play

In the period 2015-2020, social allowance expenditures (individual amount and number of beneficiaries) experienced continuous increase from Denar 7.5 billion in 2015 or 1.5% of GDP to Denar 12.3 billion or 1.7% of GDP, increasing by 64%.



Pursuant to the Law on Social Protection dated 2019, reform was undertaken regarding the rights to cash allowance for social protection as follows:

- guaranteed minimum income is introduced,
- existing rights to cash allowance for social protection are redesigned,
- rights to cash allowance are combined, beneficiaries of guaranteed minimum income are provided to use child allowance and education allowance for the first time for children regularly attending classes in primary and secondary school,
- administrative procedure for acquiring rights to cash allowance is streamlined (same approach applies to assess the income of the beneficiaries of guaranteed minimum income and the rights to child protection, as follows: one application can be submitted for eligibility for different rights for cash allowance (education allowance and child allowance),
- strengthened stimulus for the beneficiaries of guaranteed minimum income so as for all working-able members of a household to opt in the active employment programs for the purpose of their training for work and employment,
- guaranteed minimum income, as well as Denar 1,000 monthly during the winter season to cover heating costs, are envisaged for the persons/households at risk due to their well-being uncertainty,
- right to allowance due to disability is introduced, enabling the parents taking care of their child with disabilities, who have not placed the child in a social care institution, to acquire the right to cash allowance at retirement age, in cases when they have not acquired the right to pension on any other bases,

- developing social services to be provided in the beneficiary's home, the community and outside the family, as well as innovative and prompt social services.

**Objective:** Reducing poverty by properly targeting the use of social assistance and pro-active role on the labor market

**Draft measures/recommendations for social allowances:**

- Strengthening the control over social assistance beneficiaries
- Strengthened criteria for exercising the social rights
- Revising the monthly amount for social allowance
- Pro-active role on the labor market to support employment of social assistance beneficiaries
- Social assistance beneficiaries (in good health) to be engaged by the state for community service

*A.1.2. Policy on Improvement of Capital Expenditure Structure and Execution*

**State of Play**

In the period 2015-2020, capital expenditures amounted to Denar 16.9 billion, accounting for 8.4% on average of the total expenditures, i.e. 2.7% of GDP. In retrospect, execution of capital expenditures was significantly lower than the projected amounts on annual basis, underexecuting on average by around 21% in relation to the annual projections.

Capital Expenditures	Budget	Realisation	%
2015	22,234	18,667	84.0%
2016	22,331	16,974	76.0%
2017	23,747	19,863	83.6%
2018	18,519	12,147	65.6%
2019	22,955	17,813	77.6%
2020	19,650	16,115	82.0%
2021	29,804		

**Objective:** Increased growth potential of the national economy, boosted competitiveness, attracting and encouraging investments by increasing the amount, the quality and the pace of execution of capital expenditures

#### **Draft measures/recommendations for capital expenditures**

- I. Budget users **to project** the capital expenditures **in a more realistic manner**, taking into account their continuous lower execution in relation to the projections.
- II. Continuing the application of the CAPEF mechanism as stipulated in the Budget Execution Law
- III. Prioritizing the capital investments and strengthened role of the Government in selecting and oversight and monitoring the implementation through the established Delivery Unit
- IV. Strengthening the role of the Ministry of Finance in the process of public investment management
  - Establishing a special organizational unit to appraise and monitor public infrastructure projects
- V. developing a public investment management module within the new IFMIS, which will support the submission of new infrastructure projects, project appraisal and preparation, project approval and budgeting and project monitoring and reporting
- VI. Adopting standard methodology for defining, preparing, reviewing, appraising and prioritizing new infrastructure projects
- VII. Enhancing the budget structure by increasing the share of capital expenditures in the total budget expenditures
- VIII. Enhancing the structure of capital expenditures by reducing the less productive capital expenditures (introducing rules and standards when purchasing/investing in vehicles, furniture, equipment) and increasing the share of infrastructure capital investments with greater effects on the economy

In order to improve capital expenditure execution, legally prescribed obligation has been introduced in 2021 for the budget users to execute 15% of the capital expenditures by the first quarter inclusive, 40% as of the second quarter inclusive and 65% as of the third quarter inclusive. In case of failure to do so, Ministry of Finance reallocates the unused funds up to the prescribed limit to item 414 - Capital Expenditures Reserves at the respective budget user, without any right to spending. Should the budget users spend the funds up to the prescribed limit in the next quarter, Ministry of Finance, ex officio, returns the reduced funds to the appropriate sub-program and item where they were reallocated from. Should the budget users fail to spend the funds up to the prescribed limit in the next quarter as well, the Parliament, upon proposal by the Government, decides on the use of the funds reallocated to item 414 - Capital Expenditures Reserves. Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, for the account of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures.

On the basis of Public Investment Management Assessment (PIMA) carried out by the International Monetary Fund in January/February 2020, the Government, upon proposal by MoF, adopted Action Plan on implementing the recommendations under the Public Investment Management Assessment in December 2020, envisaging measures for gradual overcoming of the weaknesses in the public investment management system.

More specifically, reforms will be gradually introduced to the end of improving the planning, the allocations and implementation of public infrastructure projects, which will contribute to greater harmonization of budget allocations with the Government's investment priorities, improvement of the comprehensiveness of the budget documentation so as to include all public expenditures for capital investments and information on the financial needs of ongoing and new projects, introducing central oversight of the national public investments portfolio as a whole, including monitoring and management of the overall delivery risks.

The measures envisage:

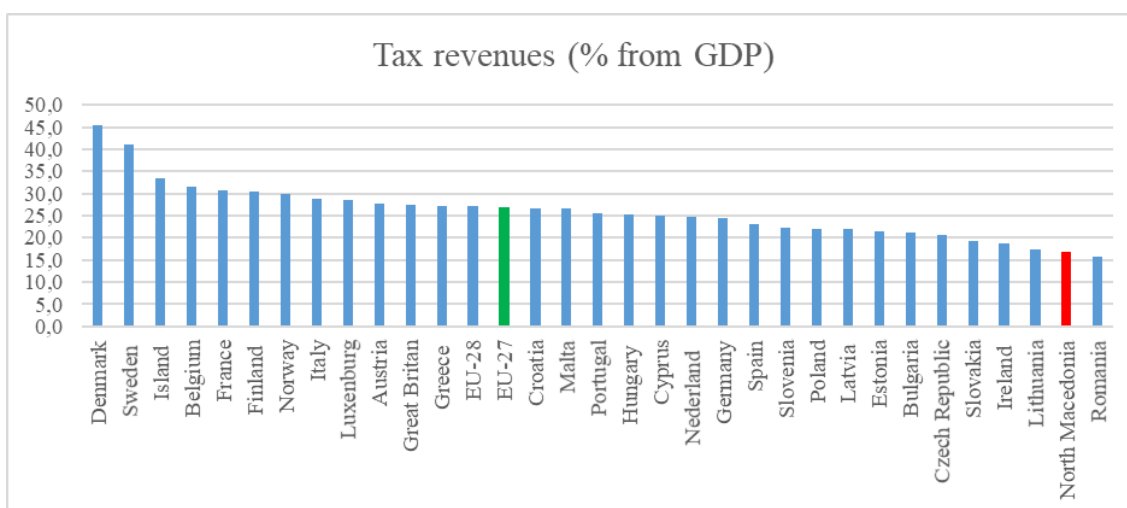
- strengthening the role of the Ministry of Finance in the process of public investment management
  - establishing special organizational unit to appraise and monitor public infrastructure projects, its staffing and capacity building for the purpose of performing the functions pertaining to public investment management
- developing a public investment management module within the new IFMIS, which will support the submission of new infrastructure projects, project appraisal and preparation, project approval and budgeting and project monitoring and reporting. It will contain data on the project as a whole, from its preparation until its completion.
- adopting standard methodology for defining, preparing, reviewing, appraising and prioritizing new infrastructure projects, in line with Article 20 of the new Budget Law (to be adopted by the Government upon proposal by MoF), specifying that the budget users, as part of the Budget preparation process, have to submit pre-feasibility or feasibility study to MoF supporting all new major investment proposals, as well as that MoF will prepare an opinion to the Government (cross-sectoral working group/committee) on the basis of the results from the studies, prior to considering a certain project for financing from the Budget or any other source.
- strengthening MoF oversight of alternative infrastructure financing sources (PPP), in particular public enterprises/joint stock companies, and increasing the comprehensiveness of the budget documentation so as to include all public capital investment spending, regardless of sources of funding.
  - gradually supplementing the information on public enterprises/joint stock companies' financial performance in the MTFS with data on capital spending plans and their realization by public enterprises/joint stock companies, including the awarding a mandate to MoF to request and compile information on public enterprises/joint stock companies and PPPs
- presenting information on individual projects in the budget documentation, distinguishing between new and ongoing, and identifying cumulative expenditure, remaining balances to complete, and projections
  - introducing an obligation for mandatory completion of the template on multiyear capital construction projects issued with the budget circular by main budget users
- developing a single pipeline of appraised capital projects, covering all sectors and all funding sources, and establishing a standard criteria for project selection
  - preparing an inventory of all existing appraised projects and creating project database

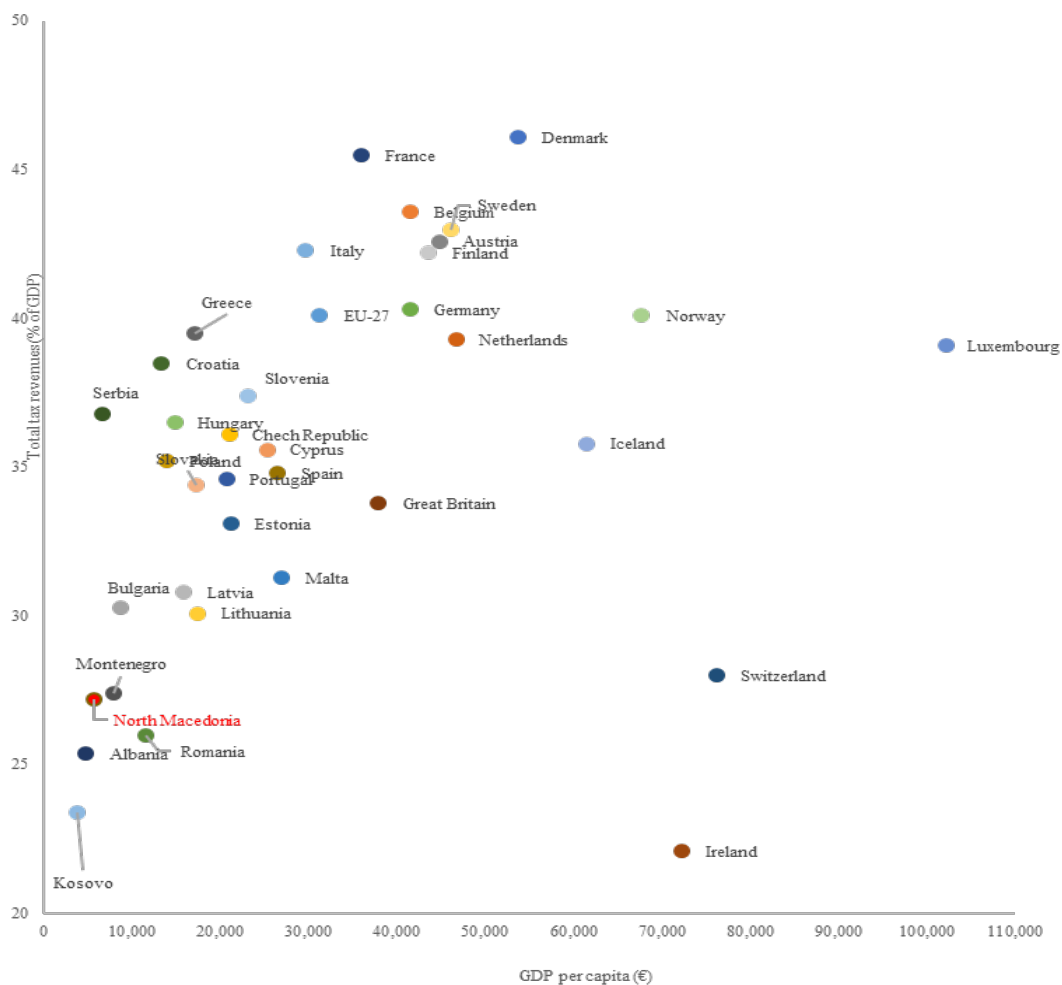


- establishing standard criteria for selection of projects, for example having a positive NPV, and readiness for implementation
- introducing risk-based centralized monitoring, involving high-level monitoring by MoF for most projects and closer scrutiny of projects with higher delivery risk
  - preparing a monitoring plan to amalgamate existing information at a single point and developing procedures to fill information gaps
- introducing a formal requirement for ex-post review of completed projects, beginning with an analytical basic completion review that includes an implementation performance assessment and lesson learned
  - designing methods and procedures for basic completion reports for all major projects

## A. 2. REVENUE SIDE OF THE CENTRAL BUDGET

Total revenues in the Budget of the Republic of North Macedonia accounted for 28.8% of GDP in 2015-2020, being among the lowest in Europe. Budget revenues comprise: taxes, contributions, customs duties, excise duties, fees, revenues of public enterprises and institutions, loans and donations. Taxes and contributions accounted for 88.9% on average of the total budget revenues, while share of tax revenues alone in the total revenues accounted for 57.5%. Tax revenues and contributions, as percentage of GDP, accounted for 25.7% of GDP, while tax revenues accounted for 16.6% of GDP.





#### A.2.1 Tax System Optimization Policy

Strengthening the efficiency and the effectiveness of the tax collection system will provide for improved collection of revenues and enhancing of the revenue side of the Budget. Hence, achieving this objective requires undertaking series of measures and activities aimed at enhancing the existing tax regulations, reducing the tax evasion, introducing advanced technologies, strengthening the revenue collection capacities of the institutions, increased and more efficient collection of tax revenues, modernization and automation of the working processes, strengthening the institutional coordination. Moreover, by adopting transparent and credible policies, substantiated by thorough analysis and comparison with the best tax practice, Ministry of Finance will guarantee the legal certainty as one of the key pillars for boosted growth and development.

**OBJECTIVE:** Main objective of the measures pertaining to optimization of the tax system is to ensure fair, efficient, transparent and modern tax system based on contemporary digital technologies and innovations in taxation, all to the end of attaining an accelerated, inclusive and sustainable economic growth.

In particular, this objective can be attained through larger set of measures elaborated below.

- **Optimizing the Tax Base**

**Draft measures for analyzing the tax base:**

- Analysis of PIT tax reliefs
- Analysis of CIT tax deductions
- Analysis of VAT preferential rate list
- Enlarging the tax base by increasing the number of taxpayers and boosted economic activity

Tax base of the three main types of taxes in the Republic of North Macedonia is reduced by applying tax reliefs and prescribed recognized expenses (PIT), tax deductions for certain entities and prescribed unrecognized expenses (CIT), while with respect to VAT, preferential VAT rate is applied. All such reliefs and deductions lead to reduction of the tax revenues, however, it has effects on the consumption at certain entities.

By analyzing the existing tax base for calculating the taxes, justification and appropriateness for its broadening and improvement will be defined, leading to determining the most effective way to increase the tax revenues.

PIT Law prescribes tax reliefs which are to be subject to further analysis so as to observe the effects from their implementation, to the end of creating policies aimed at enhancing the tax base and the PIT revenues.

Although the nominal CIT rate in the Republic of North Macedonia is 10%, the effective tax rate is lower as a result of the existing tax deductions which lower the tax base. Therefore, it is necessary to take into account all tax deductions prescribed under the CIT Law and the other laws, as well as the scope of the unrecognized expenses, all to the end of enhancing the tax base.

The range of goods and services to which the VAT preferential rate is applied in the Republic of North Macedonia will be subject of further analysis, in order to synchronize it with the recommendations in the VAT EU Directives

Moreover, on the basis of the enhanced investment cycle, as well as the boosted economic activity, tax revenues are expected to significantly increase their share as percentage of GDP on the short run.

- **Reduction of Tax Evasion**

Tax evasion leads to sizeable revenue loss, as well as unfair competition among the taxpayers. Informal economy reflects through not registering the turnover, as well as undeclared labor income, having adverse impact on the budget revenues.

Hence, reducing the tax evasion requires undertaking series of activities targeting the reasons for tax evasion, as well as overcoming the weaknesses of the institutions directly in charge of combating tax evasion.

**Draft measures for reduction of tax evasion:**

- Reduction of use of cash
- Improved fiscalization
- Improved mechanisms for VAT refund to individuals
- Strengthened inter-institutional cooperation to the end of timely detecting and preventing of informal economy
- Clear tax rules to the end of providing greater legal certainty.

Use of cash creates an opportunity for tax evasion. The optimal amount of cash allowed for using in the payment operations will be subject to further analysis by the Ministry of Finance. Measures to boost the use of cashless payment as means of payment and reducing the use of cash will be also considered.

Not issuing fiscal receipts, i.e. not registering the turnover, leads to revenue decline and encouragement of informal economy. In order to encourage the issuance of fiscal receipts, PRO will carry out more audits. Additionally, a possibility to develop a software tool, which would accurately track in appropriate time the revenues of the taxpayer in order to monitor for deviations in the recorded turnover and a more efficient way of tax audit, as well as a possibility for connecting and including the e-commerce sellers in the PRO system, will be considered.

Moreover, one of the active measures to encourage issuance of fiscal receipts, improve VAT collection, at the same time improving the economic situation of households, is the introduction of the Law on Refund of Part of VAT to Individuals and launching of a special mobile application “MyVAT” used for scanning and reporting VAT declared in the fiscal receipts.

Tax authorities work on ever greater digitalization of the tax processes, the key priority being the designing of a platform for finalization of the process - e-invoice. E-invoice should allow for monitoring the turnover in real time and significantly reducing the tax abuses and streamlining the tax audits.

The mechanism for automated VAT refund should provide for significant shortening of the average time for VAT refund, as well as its neutrality. Furthermore, other features and mechanisms will be explored all to the end of refining the VAT refund to the taxpayers, both the legal entities and the individuals, for the purpose of greater liquidity of the entities.

## **- Reduction of Tax Arrears**

Reducing the tax arrears in the Republic of North Macedonia and developing an effective system for their management will provide for increased budget revenues.

### **Draft measures for reduction of tax arrears**

- developing an effective system for managing tax arrears and tax records with a contemporary tax accounting system
- developing a software which will allow for getting the whole picture of the maturity of tax arrears, the flow of deadlines and the actual total tax arrears

As part of the effective system for management of tax arrears and tax records, new contemporary tax accounting system is to be put into operation by the end of 2021, presenting all payables and receivables of taxpayers in real time, which will contribute to timely and accurate records and collection of tax revenues.

For the purpose of up-to-date tax arrear managing, monitoring their statute of limitations, as well as timely undertaking of activities to collect them, a possibility will be considered to develop a special software which will allow for getting the whole picture of the maturity of tax arrears, the flow of deadlines, and the actual total tax arrears (i.e. separating actual arrears from uncollectible arrears).

## **- Improving the Institutions' Capacities**

Supporting the development of the tax authorities, strengthening their capacity, building competent personnel and increasing the efficiency of the audit services will provide for conditions for improved revenue collection.

### **Draft measures for improving the institutions' capacities**

- developing human resources by strengthening their capacity and building competent personnel
- introducing new integrated IT system in the Public Revenue Office that covers all business processes
- building an electronically connected system, with the Macedonian Stock Exchange, the Securities and Exchange Commission and the Central Securities Depository engaged

Developing human resources by increasing the number of tax auditors, as well as training for improved knowledge and skills of the employees, will provide for greater efficiency in their operations, and subsequently increased revenue collection.

Introducing new integrated IT system in the Public Revenue Office that covers all business processes and ensures data records in accordance with the national and international regulations and standards will result in quality services for all users and will contribute to revenue growth.

Building an electronically connected system, with the Macedonian Stock Exchange, the Securities and Exchange Commission and the Central Securities Depository engaged, will ensure efficient calculation and payment of income tax on capital gains generated on the basis of securities and investment units.

#### - **Excise Duties Policy and Taxation of Motor Vehicles**

##### **Draft measures pertaining to excise duties policy and taxation of motor vehicles**

- establishing track & trace system for tobacco products;
- introducing a special system for fuel marking;
- analyzing the amendments to the Decree on Calculating Motor Vehicles Tax and the Amount Necessary for Calculating the Motor Vehicles Tax
- developing policies, systems, procedures and instruments for efficient control and collection of excise duties by harmonizing, improving and applying the regulations in line with the best national and European practices;
- further development and strengthening of the paperless system for excise document management, all to the end of speeding up and streamlining the excise procedures and enhancing the oversight and the control over excise goods;
- Increased efficiency of excise controls by introducing targeted controls over high-risk excise goods; and
- intensifying the cooperation with the business community, developing the cooperation with the relevant agencies in the EU Member States and the international institutions.

#### *A.2.2 Policy for Reduction of Informal Economy*

Informal economy, which implies performing economic activities not being registered or reported neither for tax purposes nor as per other legal requirements, i.e. undeclared production and unregistered trade of goods and services lead to not paying taxes and social insurance contributions, as well as increased unfair competition. It undermines the competitiveness of both the companies and the individuals and it gives an unfair and illegal “advantage” for those not meeting the legal requirements.

Informal economy is detrimental for both the Budget and the revenue collection, it undermines the integrity of the tax system, thus cutting down the funds for investments in better and quality health, education and other services and goods provided to the citizens.

**OBJECTIVE:** Objective of the measures related to reducing the informal economy is establishment of a fair and loyal competition among all participants in the society, implying increased budget revenues, enhanced competitiveness and economic development.

Proposed measures aimed at reducing the informal economy presented below pertain to modernization of certain processes, as well as the e-commerce, which gains momentum and creates unfair competition for the small- and medium-sized enterprises as the main driving force of economic development.

– **Better detecting of informal economy**

**Draft measures for better detecting of informal economy:**

- Analyzing the sectors/activities where the informal economy is present the most
- Proposals and incentive measures to formalize the informal economy in the identified sectors
- Creating a list of sanctions related to informal activities (informal employment, unregistered activity, etc.)
- Reducing administrative and financial costs for formalization of micro and small businesses
- Preparing a draft pilot project for introduction of subsidies for households engaging registered employees who provide services for home repair and renovation

By implementing the above-mentioned measures, activities where the informal economy is present the most are expected to be identified, as well as the number of informally employed persons in certain activities. In addition, stimulating measures and preparation of a brochure containing sanctions for unregistered activities, to be published on the websites of many institutions, will contribute to reduction of informal economy.

In order to streamline the administrative procedures for formalization of small businesses, list of administrative requirements, posing a large and unnecessary burden on the micro businesses, will be prepared, such burden and unnecessary requirements will be reduced, as well as the formalization related costs.

Moreover, stimulating measures - subsidies for households will provide for increasing the number of newly registered employees providing services.

– **Efficient audit services**

**Draft measures for efficient audit services:**

- Increased number of auditors
- Organizing a training program for new auditors and holding training, including e-commerce training
- Creating a pilot platform to connect the audit services and training the auditors in its use
- Training customs and tax auditors in the principles and the methods on customs appraisal, transfer prices and international financial flows.

Strengthened and new human and operating capacities in the audit services, enhanced coordination and inter-institutional cooperation will lead to reduced informal economy.

Taking into account that the percentage of tax and customs auditors in relation to the total number of employees in the tax administration and the customs administration is significantly lower compared to the developed countries, it should account for at least 20% of the total number of employees in both institutions on the short- and the medium-term. Furthermore, considering the new financial flows as potential tax abuses, the audit services will attend adequate training so as to adhere to the latest tax practice.

**Draft measures for raising the awareness about informal economy and strengthening the tax morale**

- Carrying out a campaign with educational videos and promotional activities for strengthening the tax morale
- Carrying out a campaign for raising the awareness of the employees on the detrimental consequences arising from unregistered and/or partially registered employment
- Carrying out a campaign for raising the awareness of the consumers on the adverse effects arising from purchasing products and services from a company and/or individuals that are part of the informal sector

– **Raising the awareness about informal economy and strengthening the tax morale**

In order to strengthen tax morale and reduce tax evasion, marketing strategy will be implemented aimed at raising the awareness of the citizens, educating them on the detrimental consequences arising from unregistered and partially registered employment (the effect on the pension amount in future, etc.), as well as the adverse effects on the consumers of not being able to exercise their rights guaranteed under the



Law on Protection of Consumers in cases when they have no receipt for the purchased good or service.

– **Addressing the informal economy in e-commerce**

**Draft measures for addressing the informal economy in e-commerce**

- Creating a systemic solution to detect unregistered sellers on the social media and web pages and creating a set of measures for prevention and eradication
- Strengthening and implementing the operational supervision over the Law on Prohibition of Performing Unregistered Activity.

By implementing the above-mentioned measures, records on stakeholders and participants in e-commerce and unregistered activities will be improved, thus contributing to reduction of the informal economy. The measures will be implemented through banning and blocking the detected profiles on the social media through AEC.

Preparing an analysis will provide for identifying the needs and the possibilities to amend the Law on Prohibition of Performing Unregistered Activity, as well as the need to introduce regulation according to which all Macedonian electronic services offering the opening on an e-store within their domain will be obliged, when registering the stores, to request the TIN of the entity opening the store.

Moreover, the respective measures are to ensure adherence to the Law on Prohibition of Performing Unregistered Activity, as well as increased tax revenues.

### A.3 FINANCING

Financing the projected deficit, as well as debt repayment, will be provided by foreign and domestic sources in the form of loans and issuance of government securities.

Foreign borrowing is realized through issuance of Eurobonds on the international capital market and via disbursement of funds under favorable loans from foreign financial institutions and credit lines intended for financing certain projects. During the last years, Ministry of Finance is constantly present on the international capital market via issuance of Eurobonds. The first Eurobond was issued in 2005, with total of 8 Eurobonds so far. Interest rate on this instrument is market based, being determined above all on the basis of the country's credit rating. The last Eurobond was issued in March 2021 in the amount of EUR 700 million, falling due in seven years and with historic low coupon interest rate of 1.625%.

Borrowing on the domestic market is realized on the basis of continuous issuance of government securities, thus providing for additional financing under favorable terms and conditions, by using the low interest rates and the interest of the investors. The purpose is to issue, on regular basis, treasury bills and government bonds with medium-,

long- and longer-term maturities depending on the market conditions. During the past period, 12-month T-bills, as well as 2-, 3-, 5-, 7- and 15-year government bonds were issued, with the portfolio also including 30-year government bonds. Dynamics of holding government securities auctions is set under the Calendar for Issuance of Government Securities, available on the Ministry's website. Government securities are issued with and without foreign exchange (EUR) clause.

Moreover, borrowing in a form of loan from domestic commercial banks can be used as a domestic instrument for financing the budget deficit. Thus, at the beginning of 2020, the Government borrowed a short-term loan from the domestic banks, intended for repayment/re-financing part of a long-term loan.

For the purpose of more efficient development of the financial markets, the ultimate goal being to develop the GS market, in the coming period, Ministry of Finance plans to introduce a new instrument on the domestic market, so-called “**development bonds**”, which will be inflation-linked bonds with the inflation rate in the country, and will bear additional annual coupon interest, thus stimulating the financing of development projects in the country, at the same time providing for revival of the financial markets in the Republic of North Macedonia. This type of financial instrument will be initially intended for the individuals, with a possibility to be also available to the banks, the pension funds and other participants in the financial markets.

Following features are initially envisaged for the development bonds:

- Denar-denominated government bond,
- maturity: 5 years,
- coupon interest rate: 0.50% annually,
- by 15<sup>th</sup> January each year at the latest, its value will be respectively aligned with the inflation rate in the previous year,
- banks in North Macedonia will be direct authorized participants at the auctions, and
- all individuals and legal entities will be entitled to participate as indirect authorized participants.

Furthermore, to the end of continuously enhancing and developing the GS market, one more financial instrument, so-called “**green bonds**”, is envisaged to be introduced in the medium term in addition to the development bonds. These bonds are intended to stimulate and support environment improvement and protection projects, designed specifically to support eco projects. Unlike the existing bonds, green bonds will be used solely for investment projects or green development, with the proceeds used for covering the capital expenditures. Introducing this instrument will facilitate the development of the financial market on the medium term.

However, conventional financing of infrastructure projects is not sufficient, a need arises to consider and implement other more innovative ways of financing with so-called “**project bonds**”. These bonds will open up the possibility for an alternative funding to source financing of infrastructure-related projects. Project bonds offer an opportunity for institutional investors to participate in infrastructure projects through listed, tradable securities that can offer superior risk-adjusted returns. An area especially

benefiting from the project bonds is the energy sector. This is so because energy projects ensure stable and long-term income.

### **Growth Acceleration Plan**

Growth Acceleration Plan 2022-2026 is a general framework which consists of all elements that could contribute to growth potential on a medium-term basis. The Plan aims to finance the recovery of the economy affected by COVID-19 and to support accelerated and sustainable growth while maintaining fiscal stability by mobilizing capital from the private sector in addition to the funds allocated from the budget and borrowings.

The Growth Acceleration Plan will play a key role in boosting jobs and growth in the economy of North Macedonia. The ultimate goals are threefold:

- Increase investments - to make more efficient use of the publicly funded investment in the amount of EUR 4 billion in the next five years by mobilizing additional investments by the private sector
- Accelerate growth - to double the rates of medium-term economic growth to 5% annual growth
- Ensure fiscal consolidation - to facilitate the reduction of the public debt below 60% of the country's GDP in the medium-term

It suggests innovative ways to finance the investments, to consume all the available funds offered from official creditors and to reach all the possibilities to mobilize private investments. The Plan consolidates all existing and new plans, initiatives and allocated funds of the Government of North Macedonia and international development partners for the 2021-2026 period.

It aims to improve the enabling environment, developing regulatory conditions, building capacities, putting in place standards and reducing risks. The framework presents alternative sources of financing aiming to provide greater support to the private sector, innovation and strengthening competitiveness in North Macedonia. The focus, besides the budget (both revenue and borrowings), has been put on the following types of instruments: grants, stocks, loans, concessions, public-private partnerships, etc.

Potential investors from which the financing would be collected for investment in various forms are the state and state institutions-ministries as investors through the state budget; international institutions through different types of funds - for example the European Investment Fund, Fund for Innovation and Technological Development; institutional investors; business angels, general public (citizens and diaspora), commercial banks, and others.

Inter alia, these sources will enrich the access to finance for small, medium and large enterprises (SMEs) to encourage their growth and development. The focus will be on priority areas and potential growth areas. The intention is to develop their competitive

position via digitalization, human resource development, innovation and technology, social cohesion, etc.

Various existing and newly proposed instruments that could provide project financing are planned to be introduced and applied. Following instruments are envisaged: Guarantee Scheme, Energy Efficiency Fund, Fund for Local and Regional Development, Fund for research and Development, Hybrid Green and Digital Economy MSME Fund, Hybrid Strategic Green Investment Fund, Fund of Funds, Venture Capital Funds, Crowdfunding.

The growth acceleration – strongly supported by the Growth Acceleration Plan – is expected to bring significant benefits for the economy in the medium term. The cumulative growth of real GDP in 2026 is expected to be 35.4% higher compared to the 2020 level. The nominal GDP would increase by 52% for the same period. The medium-term growth will be broad-based, reflecting a strong expansion in investment (64.8%), private consumption (26.3%) and exports of goods and services (68.5%). The cumulative labor productivity growth of 12.2% would also enable a real economy-wide net-wage to increase by 11.4% in the 2022-2026 period.

**Draft measures for financing:**

- Budget users with own sources of funding are obliged to finance the daily operations primarily with their own funds, recouring afterwards to using budget funds.
- New sources of financing by introducing new debt instruments:
  - Development bonds which will be inflation-linked bonds with the inflation rate in the country, stimulating the financing of development projects in the country
  - Green bonds which will be intended to stimulate and support environment improvement and protection projects
  - Project bonds which will open up the possibility for an alternative funding to source financing of infrastructure-related projects.

**B.**

**Pension Insurance Fund of RNM**

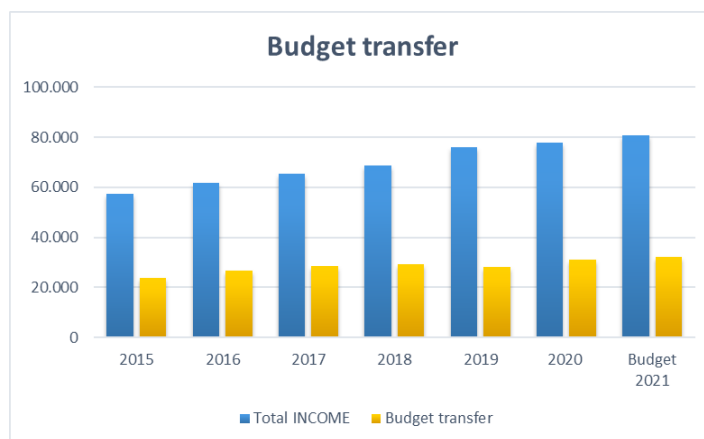
**State of Play**

Law on Pension and Disability Insurance governs the mandatory pension insurance of employees and individuals performing an activity, the bases of fully-funded pension insurance, as well as the special requirements under which certain categories of

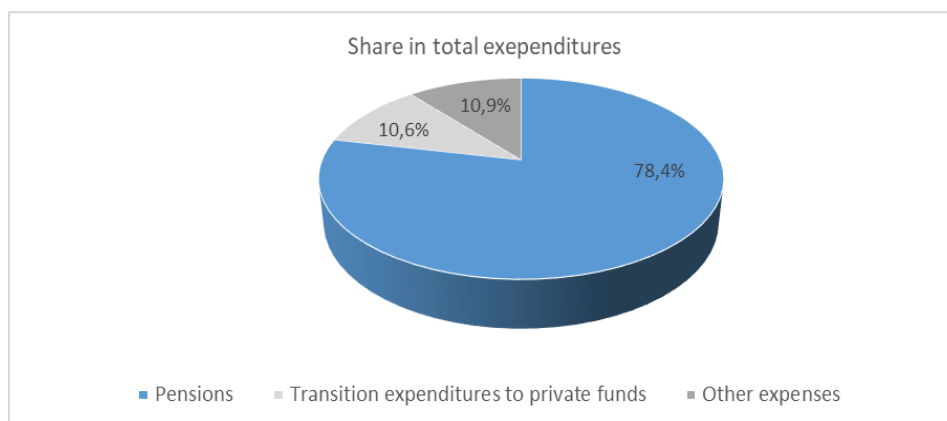
insurees exercise the rights to pension and disability insurance. In addition to the own revenues the Fund generates and uses to finance its operations, due to shortage of funds for financing the expenditures, it is transferred funds from the central budget each year.

Pension and Disability Insurance Fund							Denar million
PDIF	2015	2016	2017	2018	2019	2020	Budget 2021
<b>Total INCOME</b>	<b>57.231</b>	<b>61.675</b>	<b>65.327</b>	<b>68.840</b>	<b>75.884</b>	<b>77.861</b>	<b>80.592</b>
Wage contributions	30.969	32.483	34.264	36.580	40.382	43.372	45.082
<b>Budget transfer</b>	<b>23.837</b>	<b>26.608</b>	<b>28.461</b>	<b>29.398</b>	<b>28.103</b>	<b>31.149</b>	<b>32.187</b>
Other income	2.425	2.584	2.602	2.862	7.399	3.340	3.323
Percentage of share of transfers from budget in total revenue	42	43	44	43	37	40	40
<b>Expenditures</b>	<b>56.784</b>	<b>61.489</b>	<b>65.156</b>	<b>68.548</b>	<b>73.121</b>	<b>77.392</b>	<b>80.657</b>
Pensions	45.565	48.248	51.822	54.232	56.320	60.215	62.619
Transition expenditures to private funds	4.720	6.374	6.262	7.011	8.859	8.789	9.300
Other expenses	6.499	6.867	7.072	7.305	7.942	8.388	8.738
Pension beneficiaries	301.728	307.610	312.398	317.278	324.039	326.295	324.448
Average pension	13.095	13.754	13.954	14.445	14.602	15.483	15.860

Total revenues generated in 2015 amounted to Denar 57.2 billion, Denar 23.9 billion out of which as central budget transfers. Throughout the years, revenues increased, amounting to Denar 77.9 billion in 2020, with Denar 80.6 billion projected in 2021. Funds transferred from the central budget also increased, amounting to Denar 31.1 billion in 2020, with Denar 32.1 billion projected in 2021. Revenues generated on the basis of wage contributions accounted for the most (57.5%) in the revenue structure in 2020, along with the central budget revenues accounting for 38.4%, while share of all other revenues accounted for 4.1% of the total revenues.



Total expenditures executed in 2015 amounted to Denar 56.8 billion, Denar 45.6 billion out of which paid for pensions, and Denar 4.7 billion as transitional costs to the second pillar. Throughout the years, expenditures increased, amounting to Denar 77.4 billion in 2020, with Denar 80.6 billion projected in 2021. In 2020, Denar 60.2 billion was spend for payment of pensions, and Denar 8.8 billion as transitional costs to the second pillar.



As regards the expenditure structure in 2020, pensions accounted for 78%, payments towards the second pension pillar accounted for 11.2%, health insurance contribution accounted for 10.1%, and all other expenditures accounted for 0.7%. In 2020, number of insurees was 571,863 which, compared to 2019, dropped by 9,542 persons, while number of pension beneficiaries was 326,295, increasing by 2,256 persons. The Table shows an increase in the number of pensioners from 301,728 persons in 2015 to 326,295 persons in 2020.

In 2017, the Fund indexed the pensions, in particular by 0.82% from 1<sup>st</sup> January and by 0.76% from 1<sup>st</sup> July, or by 1.59% in total. Average pension in December amounted to Denar 13,954.

In 2018, the Fund indexed the pensions in line with the legal regulations, in particular by 1.69% from 1<sup>st</sup> January and by 1.80% from 1<sup>st</sup> July, or by 3.52% in total. Under the indexation, average pension in December 2018 amounted to Denar 14,445.

In 2019, the Fund indexed the pensions in line with the legal regulations, in particular by 0.7% from 1<sup>st</sup> January and by 0.4% from 1<sup>st</sup> July.

Percentage of pension indexation		
	1 <sup>st</sup> Jan	1 <sup>st</sup> July
2017	0.82	0.76
2018	1.69	1.8
2019	0.7	0.4

Average pension registered an upward trend of Denar 13,754 in 2016 to Denar 15,860 in July 2021. With respect to the percentage allocated for payment of pension insurance contributions, it dropped throughout the years, i.e. from 21.2% in 2008 to 18.8% in 2020.

Percentage of contributions	Pension and disability insurance	Compulsory health insurance	Employment	Additional health insurance	Total
2008	21,2	9,2	1,6	0,5	32,5
2009	19	7,5	1,4	0,5	28,4
2010-2018	18	7,3	1,2	0,5	27
2019	18,4	7,4	1,2	0,5	27,5
2020	18,8	7,5	1,2	0,5	28

Objective: Better living standard of the retirees and ensuring sustainability

#### Draft measures for PDI Fund

- Considering the possibility to increase the percentage of the pension insurance contribution
- Considering the possibility to raise the retirement age
- Reducing the funds transferred from the central budget to PDIF

Health Insurance Fund of Republic of North Macedonia

#### State of Play

Health Insurance Fund is established on the basis of the Health Insurance Law ("Official Gazette of Republic of Macedonia", nos. 25/2000, 34/2000 and 96/2000) for the purpose of implementing mandatory health insurance, as an institution performing activity of public interest and public authorizations stipulated by the respective Law.

In addition to the own revenues (wage contributions) the Fund generates and uses to finance its operations, due to shortage of funds for financing the expenditures, it is transferred funds from the central budget each year.

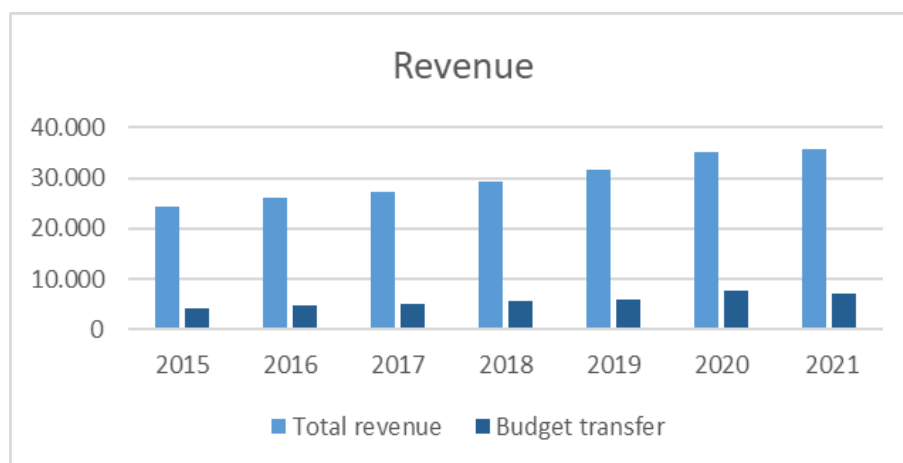
## Health insurance fund

Health insurance fund	2015	2016	2017	2018	2019	2020	Budget 2021
<b>Total revenue</b>	<b>24.465</b>	<b>26.067</b>	<b>27.289</b>	<b>29.415</b>	<b>31.579</b>	<b>35.181</b>	<b>35.593</b>
Income from contributions	13.643	14.334	15.025	16.131	17.622	18.763	19.459
Budget transfer	4.203	4.769	5.075	5.761	5.844	7.792	7.259
Other income	6.619	6.964	7.189	7.523	8.113	8.626	8.875
Percentage of share of budget transfers in total revenue	17	18	19	20	19	22	20
<b>Total expenses</b>	<b>24.120</b>	<b>26.031</b>	<b>27.494</b>	<b>29.407</b>	<b>31.277</b>	<b>35.255</b>	<b>35.593</b>
Health services	21.065	22.788	24.045	25.689	27.308	30.818	31.179
Sickness expenses	2.582	2.808	2.995	3.258	3.490	3.908	3.800
Other expenses	473	435	454	460	479	529	614

Total revenues generated in 2015 amounted to Denar 24.5 billion, Denar 4.2 billion out of which as Budget transfers. Throughout the years, revenues increased, amounting to Denar 35.2 billion in 2020, with Denar 35.6 billion projected in 2021. Funds transferred from the central budget also increased, amounting to Denar 7.8 billion in 2020, with Denar 7.3 billion projected in 2021.

Health insurance contributions (85.4%) accounted for the most in HIF's revenues in 2020, followed by transfers from MLSP for maternity leave, and other revenues accounting for 3.4%. As regards revenues generated on the basis of wage contributions, they also include the health contribution for unemployed persons paid by the Employment Agency of Republic of North Macedonia, health contribution for beneficiaries of social rights paid by the Ministry of Labor and Social Policy, health contribution for retired persons paid by the Pension and Disability Insurance Fund and health contribution for uninsured persons paid by the Ministry of Health.





As regards the percentage allocated for payment of health insurance contributions, it dropped throughout the years, i.e. from 9.2% in 2008 to 7.5% in 2020.

Total expenditures executed in 2015 amounted to Denar 24.1 billion, Denar 21 billion out of which for health services. Throughout the years, expenditures increased, amounting to Denar 35.2 billion in 2020, with Denar 35.6 billion projected in 2021. Expenditures related to health services amounted to Denar 30.8 billion in 2020. As regards the expenditure structure in 2020, expenditures related to health services accounted for 98.5%, while Fund's operating expenditures accounted for 1.5%.



Hospital health care services accounted for the most in the structure for funds intended for health services, with 39.9%, whereby specialist consulting health care accounted for 29.1%, while primary health care accounted for 28%, etc.

As for sick leave benefits in 2020, maternity leave benefits accounted for the most with 80.3%.

## Capitations

Measure of the Health Insurance Fund, which increased the capitation point for family doctors from Denar 50 to Denar 55, being applied from 1<sup>st</sup> July 2016, caused for the fiscal implications to increase, amounting to Denar 188 million per year (source HIF 2016). In addition, as of October 2019, increase in the capitation amounted to Denar 8 per patient treated at family doctor, gynecologist or dentist. Increase accounted for 15% for doctors and 20% for dentists.

## Transfer to private health institutions

Health services used in the private hospitals are in the field of:

- cardiovascular surgery
- ophthalmology
- pediatric ophthalmology

Amount HIF paid to private health institutions in line with the aforementioned data, has been increasing over the years, from Denar 7.3 billion in 2015 to Denar 9.7 billion in 2020.

Amount that the HIF paid to private health institutions in thousands of denars

Year	2015	2016	2017	2018	2019	2020
Amount	7,320,064	7,970,805	8,332,457	8,936,680	9,243,771	9,707,448

## Public Health Institutions

Total budget funds from HIF allocated in 2020 to all 109 public health institutions exceeded Denar 20 billion, Denar 19.8 billion being spent therefore, i.e. their absorption accounted for 99.1%.

As for the funds paid for wages of the employees in the public health institutions, upward trend was observed, being a result of the increased wages in the health sector. In fact, in line with the data from the Ministry of Health, compared to December 2017, basic gross wage of the specialist doctor increased by more than 50%, 33% for nurses, 29% for physicians and 15% for health workers.

First wage increase in the public health sector took place in September 2018, 19,123 employees in the public health institutions had their wage base increased by 5%, what followed in January 2019 was the increase of the wages of health workers, physicians,

nurses, paramedics, technicians, 5% for nurses, 8% for nurses at clinics and 10% for doctor specialists; whereby in September 2019, the health sector administration had their wage increased by 5%. By increasing the wages in February 2020 by 25% for the specialist doctors and by 10% for the nurses, the cycle of wage increases in the health sector was completed.

The overview table shows the downward trend in the number of employees in the public health institutions: declining from 22,181 persons in 2016 to 20,838 persons in 2020.

	<b>Number of employees in public health institutions</b>	<b>Amount of wages in public health institutions (Denar thousand)</b>
<b>2016</b>	22,181	8,542,998
<b>2017</b>	19,986	8,793,522
<b>2018</b>	19,338	9,030,918
<b>2019</b>	19,785	10,309,651
<b>2020</b>	20,538	12,122,962

#### **Liabilities of the public health institutions**

	<b>Due</b>	<b>Undue</b>	<b>Total</b>
2015			3,171,722,000
2016			3,310,318,000
2017			3,232,753,000
2018	2,868,029,129	1,072,962,915	3,940,992,044
2019	2,726,247,074	946,263,748	3,672,510,822
2020	2,756,504,916	1,182,901,088	3,939,406,004
July 2021	3,816,340,418	1,517,151,641	5,333,492,059

source: Electronic System for Reporting and Recording of Liabilities

Given the analyses made by HIF, as regards the structure of PHI expenditures, expenditures related to basic wages accounted for 52%, expenditures related to procurement of materials accounted for 26%, expenditures related to utility services and other expenditures accounted for 5% and 15% respectively, etc. As for unpaid liabilities (debts) of public health institutions, upward trend was observed, whereby they amounted to Denar 3.9 billion in December 2020.

Objective: Rendering better- quality health services

#### **Draft measures of HIF**

- Undertaking measures for reducing the unpaid liabilities (debts) of HIF
- Undertaking measures for optimal use of all resources: space facilities, expert personnel, medical equipment, given that the costs incurred by some of the public health institutions do not correspond to the scope and type of services offered to citizens of a particular region
- Regarding the treatment abroad, as well as in the private clinics, what is recommended is to make efforts to increase the treatment within the country and the public health institutions rather than in private institutions.
- Considering the opportunity to increase the percentage for health insurance contribution
- Undertaking measures and activities aimed at promoting the preventive health (promoting healthy food, sports, physical activity, and similar) for the purpose of reducing the healthcare costs in the long run and having a healthier nation, i.e. proving for long-term healthcare system sustainability.

### **C. LOCAL GOVERNMENT UNITS**

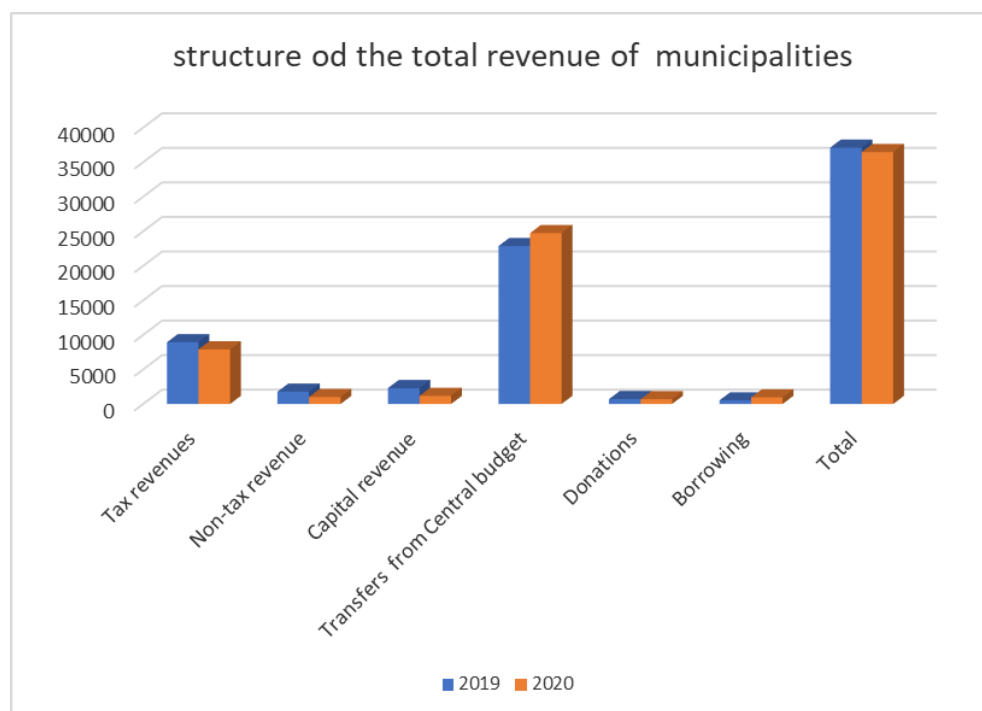
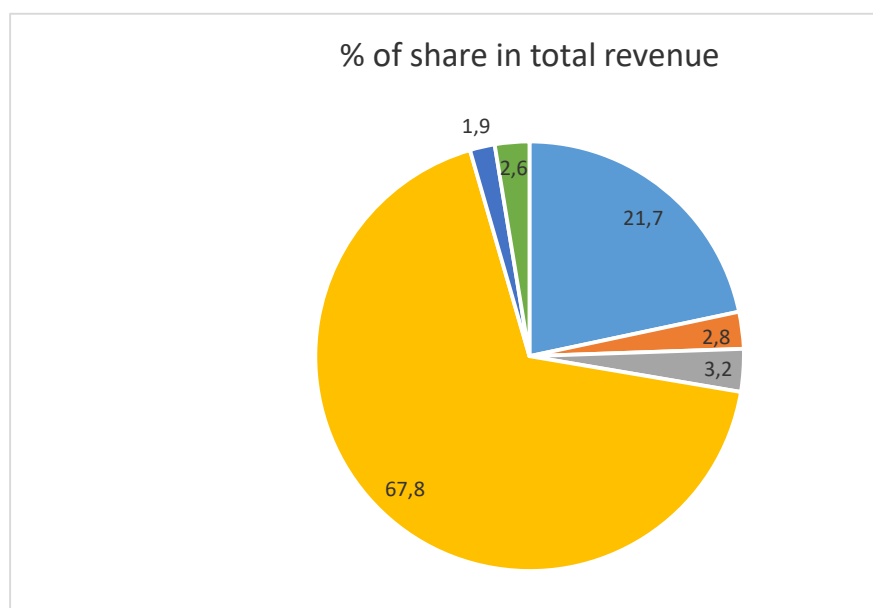
#### **State of Play**

Local government is financed from own resources, whereby the transferred competences are additionally financed from the Central Budget in the form of grants:

- VAT general grant, accounting for 4.5% of the total VAT collected in the previous year, being distributed to all municipalities, in line with set criteria and
- block and earmarked grants in the field of: education, child care, culture and fire fighting, intended for financing wages and operating expenditures for the transferred competences.

As for the data on the executed expenditures of local government units in the 2015-2020 period, upward trend was recorded, thus surging from Denar 30.1 billion in 2015 to Denar 36.5 billion in 2020. If we analyze the revenue structure, one can observe that transfers from the Central Government accounted for the most in the total revenues (VAT grant, PIT, earmarked and block grants, capital grants and other transfers from the Central Government) accounting for **55% in 2019 up to 64% in 2020**. This indicates great dependence of local government on the transfers, being distributed from the Central Government. Tax revenues, which are mostly revenues self-administered by the local

government, accounted for around 24-26% of total revenues, except in 2020, when the share was reduced to 22% primarily as a result of the COVID-19 epidemic.



In 2021, total municipal revenues are projected in the amount of Denar 47.8 billion, being **projected in unrealistic manner**, taking into account the upward trend of revenues in the previous years. This is a result of the increased percentage from 30% to 50% of the collected revenues in average over the last three years, according to the data in the

treasury records upon request by a group of MPs. Ministry of Finance concluded that the unrealistic projecting of the budgets of the local government units, i.e. the too optimistic revenue projections are one of the reasons due to which the local government units accrued outstanding liabilities in the previous years.

REVENUES AND EXPENDITURES OF THE LSGU 2015 - 2021														
	2015 year		2016 year		2017 year		2018 year		2019 year		2020 year		2021 year -plan	
	realizati on	%	realizati on	%	realizati on	%	realizati on	%	realizati on	%	realizati on	%	plan	%
Total government expenditures														
TOTAL REVENUE	30.132	100	31.025	100	30.845	100	31.685	100	37.078	100	36.473	100	47.852	
Tax revenues	7.521	25	8.128	26	7.939	26	8.384	26	8.935	24	7.901	22	11.414	24
Non-tax revenue	1.572	5	1.386	4	1.316	4	1.471	5	1.776	5	985	3	2.497	5
Capital revenue	2.171	7	1.929	6	1.272	4	1.679	5	2.293	6	1.175	3	3.335	7
Transfers and donation	18.363	61	18.984	61	19.802	64	19.877	63	23.562	64	25.455	70	29.407	61
Transfers from Central budget	17.770	59	18.528	60	17.284	56	19.187	61	20.325	55	23.177	64	24.010	50
Grants from WAT	1.733		1.876		2.068		2.153		2.216		2.343		2.233	
Personal Tax	279		293		314		341		375		486		522	
Earmarked grant	288		293		289		291		313		352		407	
Block grants	14.301		14.478		13.254		15.626		16.568		18.677		18.684	
Capital grants	581		803		664		314		244		314		878	
Other transfers	588		785		695		462		609		1.005		1.286	
Domestic borrowing	495	2	580	2	515	2	274	1	512	1	957	3	1.199	3
Borrowing abroad	10	0	18	0	1	0	0	0	0	0	0	0	0	0
Sale of securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURES	29.251	100	30.314	100	30.419	100	30.361	100	35.983	100	35.250	100	47.848	100
Wages and allowances	14.400	49	14.640	48	14.727	48	15.034	50	16.134	45	18.333	52	19.462	41
Stocks and undefined expenses	32	0	32	0	19	0	32	0	51	0	40	0	93	0
Goods and services	7.393	25	7.213	24	7.043	23	7.722	25	9.043	25	6.897	20	11.137	23
Interest payments	58	0	55	0	46	0	45	0	43	0	32	0	62	0
Subsidies and Transfers	1.201	4	1.236	4	1.578	5	1.745	6	2.875	8	2.835	8	3.028	6
Social benefits	36	0	44	0	39	0	46	0	48	0	48	0	61	0
Capital expenditures	5.884	20	6.785	22	6.635	22	5.316	18	7.261	20	6.553	19	13.463	28
Repayment of principal	247	1	309	1	332	1	421	1	528	1	512	1	542	1

Objective: Better-quality municipal public service and ensuring better-quality municipal goods via more efficient operations of the municipalities and their sustainability

**Recommendations as regards LGUs own revenues:**

- Increase of the share of municipal own revenues in the total revenues, by taking into account the amendments to the Law on Property Taxes, stipulating for the revision of the real estate market value, as a tax base of the property tax, to be performed by the municipalities, the municipalities of the City of Skopje and the City of Skopje every four years for the purpose of harmonizing with the actual state-of-play.
- Tax rates on real estate, not being used by the owner or not being leased for a period longer than six months throughout the year, being owned by the state, the municipalities, the municipalities in the City of Skopje and the City of Skopje and natural persons and legal entities, has been increased by three times in relation to the rates stipulated by law.
- Property tax rates on agricultural land, which is not used for agricultural production, are increased from three to five times in relation to the base rates.
- Market value amount should be the base for calculating the real estate tax, rather than the estimated value determined in the Methodology for Determining the Market Value of the Real Estate.
- Timely issuance and submission of tax decisions to taxpayers.

As regards transfers for the transferred competences in primary and secondary school, culture, child care and elderly homes, as well as firefighting activity, continuous upward trend was observed from Denar 14.6 billion in 2015 to Denar 19.1 billion in 2021, i.e. 30.5% increase. Highest increase in 2021 compared to 2015 was observed at block grant for child care by 70.6% mostly as a result of the opening of new kindergartens on one hand, coupled by adjustment, i.e. increase in the wages of the employed people in the kindergartens. Block grant intended for culture picked up by 42.2% in 2021 compared to 2015, mostly due to the increase of wages of employees in 2020, i.e. harmonization with the new collective agreement. Grants intended for primary and secondary education increased by 26.3% in 2021, as a result of the identified increase in the number of employees and the increase in the wages of employees despite the downward trend of the number of pupils. As for these block grants, it is concluded that expenditures for payment of wages and allowances participated with around 80%-90%. Earmarked grant for firefighters recorded 41.5% increase mostly due to the increased number of employed people and opening of new 4 territorial firefighting units, although the number of firefighters is below the legally set minimum.

	2015	2016	2017	2018	2019	2020	2021
<b>Ministry of labour and social policy</b>	1.231.252.670	1.298.187.614	1.402.824.957	1.578.290.000	1.837.734.996	2.131.098.723	2.085.201.000
Child care	1.192.752.674	1.256.723.658	1.356.694.953	1.532.160.000	1.796.305.698	2.106.498.936	2.034.834.800
Eldery home	38.499.996	41.463.956	46.130.004	46.130.000	41.429.298	24.599.787	50.366.200
<b>Ministry of education and science</b>	12.860.000.000	12.920.000.000	13.020.000.000	13.798.163.000	14.453.663.000	16.221.905.000	16.246.800.000
<b>Earmarked grant- primary school</b>	3.000.000	3.000.000	3.000.000	3.000.000	3.000.000	3.100.000	3.200.000
<b>Ministry of culture</b>	247.785.000	260.038.000	234.335.000	249.882.000	277.001.000	323.942.000	352.330.000
<b>Ministry of defence - Firefighters</b>	285.148.270	289.971.507	285.772.383	287.680.956	309.885.742	349.037.314	403.500.000
<b>Total</b>	<b>14.627.185.940</b>	<b>14.771.197.121</b>	<b>14.945.932.340</b>	<b>15.917.015.956</b>	<b>16.881.284.738</b>	<b>19.029.083.037</b>	<b>19.091.031.000</b>

As regards the unused funds on the municipal accounts in the 2015-2020 period, we can conclude that there is increasing tendency, especially on the accounts of the Core Budget and the Budget for the grants. Unused funds from block grants in 2020 compared to 2015 increased by more than 4 times, amounting to around Denar 1.9 billion.

With respect to earmarked accounts, high amount of funds was determined, which execution should be higher.

Amount of municipal balance by accounts  
deners

in milion

<b>Account type</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
The basic budget (630 and 789)	2.215	2.477	1.911	5.821	4.478	3.276
Grant budget 930	443	499	658	994	1.105	1.897
<b>Total</b>	<b>2.658</b>	<b>2.976</b>	<b>2.569</b>	<b>6.815</b>	<b>5.583</b>	<b>5.173</b>

As of September 2018 inclusive, municipal arrears under ESRRL amounted to around Denar 5 billion. In December 2019, municipal arrears amounted to Denar 3.3 billion, being reduced as a result of the financial support by the Government of the Republic of North Macedonia, amounting to Denar 3.2 billion. Municipal arrears increased again at the end of 2020, amounting to Denar 3.7 billion, whereby as of July 2021 inclusive, they amounted to Denar 3.9 billion, i.e. new arrears were incurred.

**Recommendations for using excess funds under the accounts of LGUs:**

- Greater usage of available own funds and implementation of activities in line with the requirements and the needs of the local population
- Greater degree of usage of the funds from the block grants to the end of rendering better-quality services, improving the execution of transferred competences and timely settling the due liabilities



	2015 year	2016 year	2017 year	2018 year	2019 year	2020 year	to July 2021
Arrears				5.248.353.268	3.305.548.057	3.698.207.190	3.851.250.910
Number of employees	5.744	5.677	5.678	5.693	5.655	5.751	

**Recommendations as regards the arrears at LGUs:**

- Strengthened financial discipline and efficiency
- Timely servicing of due liabilities towards the creditors
- Reducing and rescheduling of debts and writing off interest
- Declaring financial instability
- Preparing new legal solution, by which municipalities will be given the opportunity to use one of the three credit instruments, to the end of overcoming the issues related to the arrears, as follows:
  - Using Stand-By Credit by the Ministry of Finance
  - Issuing municipal bond for known purchaser - Ministry of Finance
  - Issuing structural bond by the Ministry of Finance.

As for the data on the executed expenditures of local government units, increasing trend was recorded, by which they increased to Denar 35.3 billion in 2020 from Denar 29.2 billion in 2015. If one analyzes the expenditure structure, it can be seen that wages and allowances accounted for the most in the total expenditures with 45%-52% (also including the wages of employees in the local public institutions). During the analyzed period, continuous increase was recorded, from Denar 14,400 million in 2015 to Denar 18,333 million in 2020.

Operating expenditures accounted for 20%-25% of total expenditures, i.e. they amounted to Denar 7,393 million in 2015, while drop of Denar 6,897 million was recorded in 2020, caused by the consequences of COVID-19 pandemic.

According to the data by the Ministry of Information Society and Administration, what can be concluded from the Reports from the Register of Employed People in the Public Sector in the period 2015-2020, is the fact that the number of employed people in the municipal administration was kept at constant level with minor fluctuations, ranging between 5,655 and 5,751 employed people.

Capital expenditures accounted for 18%-22% of total expenditures, i.e. they amounted to

**Recommendations as regards LGUs expenditures:**

- To retain the level of expenditures for payment of wages and allowances
- To consider the possibility to streamline the existing number of employed people to the end of making maximum use of the available capacities and improving the level of rendering services to the local population
- To reduce non-productive expenditures (travel and per diem costs, entertainment costs, and similar)
- To increase the share of capital expenditures in total expenditures
- Not to pay additional allowances (bonus, vacation allowance and similar) at municipalities, having blocked accounts on the basis of enforcement orders

Denar 5,884 million in 2015, recording an increase in 2020, when they amounted to Denar 6,553 million.

#### D. PUBLIC ENTERPRISES AND STATE-OWNED COMPANIES

##### **State of Play**

Government of the Republic of North Macedonia founded 14 public enterprises, being a single shareholder in 15 companies, 13 out of which are state-owned joint stock companies, while 2 of them are state-owned single member limited liability companies.

In line with the legal regulations, the Government of the Republic of North Macedonia considers and gives consent, i.e. approved the acts on the financial operations of public enterprises and companies, being its founder. Thus, the Government decides upon the proposed decisions on the manner of covering the loss, i.e. the manner of distributing net profit/excess funds shown in the Annual Reports of Entities.

Thereby, pursuant to the legal regulations, as for public enterprises, the founder invests the excess funds generated from the operations of the public enterprise, in the public enterprises on the basis of detailed financial plans, while the excess funds not covered in the investment in the public enterprise in line with the approved investment program, are paid by the public enterprises in the Budget of the Republic of North Macedonia.

At the same time, in the case of state-owned companies, in accordance with the legal regulations, the decision on distribution of profit shows each separate purpose of the profit, in particular stating: the amount of profit to cover the loss of previous years - if any, the amounts entered in the legal and statutory reserves of the company, the amount to be paid in the form of dividend, the additional expenses based on the decision, the potential transfer of the profit in the upcoming years - accumulated profit and the profit amount, by which the founding capital of the company and the investment amount will be increased.

On the other hand, the decision to cover the loss sequentially shows the sources for its coverage: accumulated profit, reserve requirement, special reserves, premiums and the founding capital of the company.

As for the analysis of the data on financial operations of these entities in the period 2015-2021, one may determined the following:

- Total consolidated revenues in 2015 were collected in the amount of Denar 39.2 billion, with their collection amounting to Denar 38.5 billion in 2020, i.e. they recorded drop of approximately 1.8% in the indicated period. Total consolidated revenues are projected at Denar 54.3 billion in 2021;
- Total consolidated expenditures in 2015 were executed in the amount of Denar 37.7 billion, with their execution amounting to Denar 36.6 billion in 2020, i.e. they recorded drop of approximately 2.9% in the indicated period. Total consolidated expenditures are projected at Denar 53 billion in 2021;
- Total consolidated financial performance in 2015 was positive, amounting to Denar 1.4 billion, while amounting to Denar 1.9 billion in 2020, i.e. it picked up by 37.3% in the indicated period. Total consolidated profit is projected at Denar 1.3 billion in 2021;
- During the indicated period, total average number of employed people in these entities ranges between 16.8 thousand and 15.7 thousand employed people.
- Total consolidated arrears in 2018 amounted to Denar 1.7 billion, amounting to Denar 6 billion in 2019, while increasing to Denar 7.4 billion in 2020. During the first half of 2021, the arrears amounted to Denar 8 billion.

Government of the Republic of North Macedonia, as founder of public enterprises and state-owned companies continuously monitors their financial operations via the annual accounts and annual reports, 3-month reports, financial plans and investment programs, under which consideration and approval, observations and remarks are provided to the competent bodies of the enterprises/the company, being geared towards reducing the non-productive expenditures, undertaking measures for collection of uncollected claims and timely settlement of the liabilities.

Above-mentioned analysis of consolidated financial data demonstrates significant increase (by 370%) of the arrears of these entities, at the same time indicating issues related to maintaining current liquidity and timely settlement of the liabilities at certain enterprises/state-owned companies.

Taking into account the above-mentioned, and for the purpose of improving the financial status and the current liquidity of public enterprises and state-owned companies, the competent bodies need to undertake measures and activities for fiscal consolidation of these entities.

## FINANCIAL OPERATIONS OF PUBLIC ENTERPRISES AND STATE - OWNED COMPANIES 2015-2021

Public enterprise / State-owned companies	2015	2016	2017	2018	2019	2020	2021 (plan)
	in million of denars						
Total revenues	39.154.045.160	36.687.891.951	39.335.315.952	38.876.007.106	43.226.689.941	38.546.348.720	54.345.000.000
Total expenditures	37.738.767.007	34.989.479.290	33.138.143.303	35.035.736.444	39.995.472.764	36.603.583.273	53.013.000.000
Financial result	1.415.278.153	1.698.412.661	6.197.172.649	3.840.270.662	3.231.217.177	1.942.765.447	1.332.000.000
Total liabilities				1.662.413.831	5.962.485.912	7.418.456.401	7.970.632.275
number of employees	16.774	16.713	16.227	15.731	15.410	15.696	

Objective: Ensuring better quality of public services via more efficient operations of public enterprises and their sustainability.

### Recommendations for PE and state-owned companies

- Submitting **5-year plans on their operations with proposed consolidation of expenditures**, improved revenue collection to the end of profitability and sustainability of the enterprise/the company
- Increased revenues from the business activity of the enterprise/the company by undertaking measures for solid claim collection, all to the end of maintaining liquidity, timely settlement of liabilities and realization of the planned investment activities in line with the envisaged dynamics
- Reducing the expenditures for entertainment costs, sponsorships, advertisements, business trips and other non-productive expenditures, to minimum.
- Streamlining the procurement of furniture, equipment and vehicles
- Under the 2022 financial plans, operating expenditures are planned to be reduced by at least 15% compared to their execution in the previous year
- When preparing the financial plans and the employment plans for 2022, Government's commitment to streamlining the number of public sector employees should be observed in a way that the planned number of new employments will be the planned vacancies for the respective year, except for certain cases (launching new business activity and similar)
- Entities having shown the profit in the 2020 Annual Account, when adopting the draft decisions on its distribution, should take into account the conclusion of the Government, by which they are entrusted to pay the excess funds/profit in the Budget of the Republic of North Macedonia, in line with the legal regulations.

## II. CONSISTENCY AND HARMONIZATION OF ECONOMIC POLICIES FOR BETTER BUDGET PLANNING

**Objective:** Reaching effective decisions when distributing budget funds, by attaining balance between the available funds and needs, based on consistent, harmonized and measurable measures for economic growth and development.

Linkage of policies, plans and budget funds is aimed at efficient and effective absorption of budget expenditures, all to the end of attaining the set strategic priorities. Hence, having consistent, harmonized and measurable policies and programs in place is of considerable importance.

Consistent policies means stable and continuous policies over a period of time. Policies should have clear and precise objectives, which are intended to be achieved in a specific time frame, with activities and costs projected in a realistic manner. Policies should be fully planned and implemented via efficient and effective absorption of the available resources.

Frequent change of policies and goals, or the time dynamics of their implementation, signals poor capacities of the institutions in planning and implementing the public policies on one hand, while causing economic uncertainty in the private sector on the other, being due to the unsteadiness of public policies and the insufficient clarity of the goals, intended to be achieved, thus also affecting the transparency in spending the public funds.

Harmonization (coherence) of the policies means implementing measures and activities by the institutions complementing each other and creating synergies so as to achieve the common goals. This means that when creating their policies, the institutions should not turn into "silos" - each institution should not pursue an individual policy, but there should be rather a communication and harmonization among the respective policies and activities. Implementation of the measures by an institution should not be contrary to policies, measures and legal solutions already adopted by another institution.

Linkage of the output and the outcome, when implementing the policies provides for measurability of the policy success, and hence the necessity of their not only qualitative but also quantitative expression.

Monitoring of the outcome provides for timely assessment of the adequacy of the undertaken measures in light of the set goals, as well as taking timely steps in case of occurrence of risks, all to the end of fully implementing the envisaged policies.

The outcome assessment gives a picture of the policy success, i.e. whether they have contributed to economy enhancement and improved quality of life of the population.

Moreover, evidence-based policies provide for sound financial management, and transparent and accountable operations. Clearly defined outcome, measurable indicators for specific goals and systematic monitoring and assessment of the policies being implemented, are key success factors.

The need for fiscal consolidation upon the economic recovery from the pandemics is an imperative for the Government, thus imposing the need to prioritize the costs, which underpin economic growth and job creation. This means distribution of funds to those programs, which will attain the relevant outcome as required by the citizens. In addition, it should mean allocation of budget funds to policies, where achieved effects are greater than the costs, and are implemented with the lowest costs.

#### **A. Linkage of sectoral policies and budget planning, quantitatively and qualitatively expressed for the 2022-2026 period**

Program on Government Operations contains policies, which should be implemented within its term of office, which success is measured by certain indicated indicators. In addition, there are sectoral medium-term/long-term development strategies with precise action plans, which also contain expected key performance indicators upon the implemented policies, as well as necessary financial resources. Certain strategies are translated into multi-year operating programs.

Having in mind that during the preparation of the budget proposal by the institutions, a medium-term strategic plan is mandatorily submitted, it is necessary **to consolidate the programs and performance indicators** given in the Strategic Plan, with the programs and indicators in the budget plan, with special emphasis on **quantifying the key performance indicators** (see Table 1).

Furthermore, for the purpose of providing consistency of the policies at state level, particular consideration should be given to specifically stating the linkage of the programs in the strategic plan and the budget plan with the Government Program, sectoral strategies and accompanying programs and action plans for their implementation, and the Economic Reform Program (see Table 2). **This process should be avoided, i.e. there should not be different indicators for the same policies, which makes the process of measuring the effectiveness of policies unimportant.**

Sectoral strategies were adopted to achieve certain goals, such as boosted competitiveness of the economy, reduced unemployment, improved public health, reduced pollution, improved transport services, digitalized economy, better public services, etc., and hence, the activities and indicators given in the strategies should be reflected in the medium-term strategic plans and budget plans of the institutions.

#### **B. What documents should budget users keep in mind when preparing the budget proposal?**

**Medium terms 2022-2024 fiscal policy, with prospects until 2026**<sup>2</sup>. One should take into account the key elements of the policy such as redesigning of the budget policy and the fiscal consolidation, aimed at supporting the macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the national economy. Thereby, redesigned budgetary policy is closely related to the four pillars for recovery and accelerated growth: (i) economic recovery from COVID-19, (ii) intensified, inclusive and sustainable economic growth, (iii) boosted competitiveness of the private sector and (iv) development of human resources and equal opportunities.

To that end, it is necessary to link the policies with these pillars as well, so as to be able to see which precise policies and which output and outcome are envisaged for attaining the goals of the fiscal, and hence the budgetary policy.

**2022-2024 Public Debt Management Strategy, with prospects until 2026**<sup>3</sup>. Strategy contains projections on public debt trends for the period 2022-2026, which are in line with the projections of the Fiscal Strategy, thus providing a framework for the Government to act in support of prudent public debt management.

**Economic Reform Program (ERP)**<sup>4</sup>. The European Union (EU) in the Enlargement Strategy of October 2013 introduced a new approach to economic governance, inspired by the European Semester process at the EU level, wherein, the Member States are involved. This approach means a significant change in the dialogue on the economic policies and better reporting to the end of providing clearer instructions for the reforms necessary for supporting long-term economic growth and competitiveness. Process of coordinating the economic policies with the candidate countries is called simplified European Semester, which generally includes the process of preparing the Economic Reform Program.

Economic Reform Program is not perceived only as means for improving the country's economic governance itself in the light of fulfilling the economic criteria for

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<sup>2</sup> [2022-2024 Fiscal Strategy, with prospects until 2026](#)

<sup>3</sup> [2022-2024 Public Debt Management Strategy, with prospects until 2026](#)

<sup>4</sup> [Economic Reform Program](#)

EU accession, but also as means for building capacities in the institutions, to the end of better mutual coordination when creating and implementing the economic policies, planning the measures in a realistic manner, distributing budget allocations by years and activities, as well as defining the impact of the measures on: competitiveness, employment, reduced poverty and environment. Taking into account that the document is medium-term, covering a 3-year period, being updated on annual basis, it also contributes to enhancing the capacities for medium-term planning of the respective policies.

Time frame of the process of preparing the Economic Reform Program is largely in line with the budget planning process (see Table 1), but there is a need to improve the national documents, i.e. the budget plans, in order for ERP to show progress in the capacity building of institutions under coordinated economic policy planning.

Hence, under their strategic operating plans and budget proposals, the institutions involved in the process of preparing the ERP should present the reform measures that they have included or want to include in the Economic Reform Program, which may have an impact on overcoming the country's key challenges identified by the EC in the ERP Assessment, which will contribute to the competitiveness and growth of the economy, as well as job creation. In line with the European Commission's Guide on preparing ERP, each measure thereunder should be adequately budgeted, i.e. it is necessary to show the costs of the measures and sources of financing. To that end, it is necessary to link the structural reform measures under ERP and the budget plan, i.e. the institutions need, when filling in the budget circular, to indicate these measures and activities, together with the performance indicators.

**2021-2027<sup>5</sup> Intervention Plan on Investments.** The medium-term Fiscal Strategy should contain an Annex - list of projects under the Intervention Plan on Investments with specific time dynamics, financial resources and institution responsible for their implementation (start and end of the investment), as well as performance indicators, based on the new initiatives submitted by the institutions. In future, the list will be supplemented with new initiatives, at the same time providing a summary of the implementation dynamics of public investments, which is particularly important amid continuous poor execution of capital expenditures. In this respect, it is necessary for the institutions to plan the activities and risks for their implementation as realistically as possible.

Afterwards, under the draft budget plan (under the medium-term strategic plan of the institutions respectively), it is necessary to specifically indicate the IPI infrastructure projects, by presenting the output of the activities per years, as well as the linkage of these investments with specific reforms the institution implements. The Annex to the documents should include 5-10 specific policies, which will contain reforms and/or infrastructure projects with specific results and outcome by years (also including a base year).

This will provide for further prioritization of the specific measures for implementing the policies during the budget planning process, as well as selection of policies, which will have the greatest impact on the competitiveness of the country, improvement of the

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<sup>5</sup> <https://vlada.mk/node/25443>



living standard, the quality of life and the employment. This will also contribute to having in mind those programs, which will achieve the relevant outcome as required by the citizens.

Linkage of infrastructure projects with specific reforms is also a precondition for using the European Funds under IPA 3 Instrument, with respect to the EU Economic Investment Plan for Western Balkan Countries<sup>6</sup>.

**National Investment Committee (NIC) and Single List of Projects** <sup>7</sup>. National Investment Committee is a high - level forum aimed at coordination of the donors. In facts, this Forum provides for greater coordination between the representatives of the relevant institutions from the country with representatives of the international financial institutions interested in financing investment projects in the field of transport, energy, social policy, environment and digital connection.

Discussion within this Forum ensures the complementarity of different sources of funding (Budget, loans, grant support) in order to achieve a harmonized maximum outcome. At the same time, the Single List of Projects approved by the Government in January 2021 provided conditions for participation of the county at the calls for submitting projects published within the Economic Investment Plan for the Western Balkans, using funds under EU IPA 3 Instrument.

NIC does not only provide complementarity of different sources of funding, but it is also a room to discuss the effective use of donors' assistance and avoid overlapping of donors' activities.

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<sup>6</sup> [Economic and Investment Plan](#)

<sup>7</sup> [National Investment Committee](#)

Hence, it is necessary for this Committee to meet more frequently, at least on a quarterly basis, and to expand its discussion by also covering the reforms, given that the use of Funds under the EU Economic Investment Plan is conditional on the implementation of structural reform measures, especially those contained in the Economic Reform Program, as well as the implementation of the recommendations of the Joint Conclusions at the Economic and Financial Dialogue with the EU.

**Recommendations for better coordination of economic policies and budget planning:**

- Process of preparing the medium-term strategic operating plan of the institutions, the already adopted sectoral strategies, programs and implementation plan should be taken into account. They should be precisely included in the medium-term strategic operating plans of the institutions with specific quantitative key performance indicators under their full realization.
- Having in mind that during the preparation of the budget proposal by the institutions, a 3-year strategic plan is mandatorily submitted, it is necessary to consolidate the programs and performance indicators given in the strategic plan, with the programs and indicators in the budget plan, with special emphasis on quantifying the key performance indicators.
- Institutions should connect the policies and the programs in the budget proposals with the four pillars contained in the Strategy for Economic Recovery and Accelerated Growth: (i) economic recovery from COVID-19, (ii) intensified, inclusive and sustainable economic growth, (iii) boosted competitiveness of the private sector and (iv) development of human resources and equal opportunities.
- Institutions included in the process of preparing the Economic Reform Program should present, under their strategic operating plans and budget proposals, the reform measures, which they have included or which they want to include in the Economic Reform Program. When filling in the budget circular, the institutions need to indicate these measures and activities, together with the performance indicators.
- Under the draft budget plan (under the medium-term strategic plan of the institutions respectively), it is necessary to specifically indicate the infrastructure projects under the Single List of Projects/ Intervention Plan of Investments, by presenting the output of the activities per years, as well as the connection of these investments with specific reforms the institution implements. The Annex to the documents should include 5-10 specific policies, which will contain reforms and infrastructure projects with specific output and outcome by years (also including a base year). See Table 2.

Table 1. Review of reform measures, investment projects and expected results

Structural reform measure: <i>Name of the measure</i>	
Immediate output of the activities should serve for monitoring the realization of the activities for which financial resources were allocated, as well as for overcoming potential risks during their realization). They should be quantitatively and/or qualitatively expressed.	Year 1: Year 2: Year 3:
Outcome of the measure (certain year is taken as a baseline when measuring the outcome, the year, measuring the increase of the outcome is the intermediate target, the year wherein the final outcome of the measure should be attained is the final target). They should be quantitatively and qualitatively expressed.	Baseline (year): Intermediate target (year): Final target (year):

Investment project related to the structural reform measure: <i>Project Name</i>	
Immediate output of the activities should serve for monitoring the realization of the activities for which financial resources were allocated, as well as for overcoming potential risks during their realization). They should be quantitatively and/or qualitatively expressed.	Year 1: Year 2: Year 3:
Outcome of the project (certain year is taken as a baseline when measuring the outcome, the year, measuring the increase of the outcome is the intermediate target, the year wherein the final outcome of the measure should be attained is the final target. They should be quantitatively and qualitatively expressed.	Baseline (year): Intermediate target (year): Final target (year):

Table 2. Linkage of reforms and investments with the relevant processes and documents

Reform measures and investments 2022-2024 (2026)	Sectoral strategy	2022-2024 Economic Reform Program	Joint Conclusions o the Economic and Financial Dialogue with the EU starting 12 <sup>th</sup> July 2021	Intervention Plan on Investments	EU Economic and Investment Plan for Western Balkans/IPA 3, IPA 2	Green transition	Digital transformation
Measure X							
Investments X							
Measure X							
Investments Y							

Table 3. Comparison of the time frame of the budget process and the Economic Reform Program

ERP process (x)		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Budget process (✓)
1	Submission of ERP <sub>0</sub> to EC	x	✓											MoF request to budget users for basic scenario and new initiatives
2	EC/ECB assessment mission		x	x ✓										Budget users send basic scenario and new initiatives
3	Economic and Financial Dialogue on Joint Conclusions, outlining the key priorities				x ✓	x								Government adopts strategic priorities for next year
4	Kick-off event for the next ERP <sub>1</sub>					x ✓	x							Fiscal strategy
5	Information to Government on EC assessment, joint conclusions, timetable for the next ERP <sub>1</sub>						x ✓							MoF request to budget users for preparing the budget circular
6	First draft proposal of sectoral measures ERP <sub>1</sub>								x ✓					Budget users submit draft budget proposals
7	Discussion on 1 <sup>st</sup> draft proposal of measures									x ✓	x ✓			Budget proposals negotiation process
7	First update on activities linked to joint conclusions										x			
8	Second draft proposal of sectoral measures ERP <sub>1</sub>										x			
9	EC consultancy mission on sectoral measures ERP <sub>1</sub>											x ✓		Government procedure
10	Public consultations on draft sectoral measures ERP <sub>1</sub>											x ✓	x ✓	Public consultation
11	Submission of draft sectoral measures to Economic and Social Council - ERP <sub>1</sub>											x ✓	x ✓	Parliamentary procedure
12	Second update on activities linked to joint conclusions												x ✓	Adoption of budget
13	Final draft of ERP <sub>1</sub> document												x	
14	Government adopts ERP <sub>1</sub>	Jan (t+1)												
15	ERP <sub>1</sub> is sent to EC	Jan (t+1)												

### III. PERFORMANCE INDICATORS IN IMPLEMENTING THE BUDGET POLICIES

- **Budget Planning Indicators**

Performance - based budgeting aims to improve the efficiency and effectiveness of public expenditures by linking the funding of the public sector to the results they deliver. Budgeting should be seen as an isolated initiative, it should be viewed, rather, as part of a set of broader reforms - designed to focus on results delivered.

The most basic form of performance-based budgeting aims to ensure that the key decision and policy makers systematically take into account the results to be achieved by expenditure execution.

Performance-based budgeting fits within the medium-term budget framework. The best way to improve expenditure policy formulation is to make use of the performance information. For the purpose of its realization, a concept should be applied, including clearly defined:

1. General objectives (linked with the policies)
2. Specific objectives (linked with programs)
3. Output, i.e. indicators (linked with sub-programs)

Objective defines the final state of what we want to achieve. As regards each policy, 1-3 general objectives should be defined. These objectives reflect what we want to achieve at macro level with the public funds intended for such policy. While setting the objectives, it is important to observe the international commitments (EU goals for examples), sectoral strategies, the Government Program and the Economic Reform Program. **Impact indicators (policy area)** - indicators for measuring long-term effects and they generally measure the impact of a set of measures. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

Specific objectives of the programs support the general objectives of the respective policy. With respect to each program, it is necessary to define 1-3 specific objectives. **Outcome indicators (program level)** - indicators for measuring medium-term or long-term consequences of specific governmental measures and projects, which are expressed as the wider socio-economic consequences at the level of the program. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

There should be 1-3 objectives as expected results (indicators) below each sub-program. Indicators gives thorough description of what we want to achieve over a certain time period, presenting the expected results as values. They are the basis for

measuring and monitoring the SMART objectives. While setting them, different types of indicators may be used, depending on the level of detail of the objective. Objectives should have at least one indicators so as to be measured and monitored by:

- *Input indicator* is the total sum of spent budget for a precise objective
- *Output indicator* (sub-program level) - indicator used when measuring specific outputs (direct effects of measures or projects), supporting the realization of the specific objectives. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

### Criteria for Good Indicators

Indicators are chosen based on the following criteria (in line with OECD):

- The indicator should be connected to one or more objectives.

The indicators should be connected between themselves in the hierarchy – bottom up logic to be followed.

The indicators should be in line with the existing strategies, particularly on the higher level. While setting the indicators, it is also important to observe the international commitments (EU 2020 goals for example).

The indicators should be measurable, easy to understand and transparent.

The indicators should be easily available. If there is no history data, the indicators should be first created and tested, and into use later in the future.

The indicator data should be published at least once per year, or with other set timetable.

Budget users should be able to control the objective and create the indicators, so as for their follow-up, reporting and evaluating to be enabled thereto later on.

Proposals for objectives and indicators in the field of environment, transport and justice

Environment and climate change
<b>OL1: Protection and promotion of nature</b>
I1: Average air temperature
I2: Ground cover with forests
<b>OL1.1: Greater access to clean drinking water, wastewater treatment and clean air</b>
I1: Households connected to the water supply network
I2: Ground cover with sewerage network
I3: Number of days when the level of PM10 in the air is exceeded
<b>OL1.2: Nature protection and biodiversity</b>
I1: Ground cover with NATURA 2000 protected areas
I2: Endangered species of plants and animals
<b>OL1.3: Sustainable spatial planning</b>
I1: Coverage of the Republic of Macedonia with spatial and urban panels
I2: Time period required for issuing construction permits
<b>OL2: More efficient use of resources and reduction of carbon dioxide emissions</b>

И1: Energy efficiency of the economy
И2: Greenhouse gas (CO2) emissions
ПЦ2.1: Reduce pollution and increase the amount of waste collected
И1: Quantity of waste produced, collected and / or treated
<b>ОЦ3: Protection of human health from environmental risks</b>
И1: Life expectancy
<b>Transport</b>
<b>ОЦ1: Better and more efficient transport</b>
И1: Value Added Index in Transport
ПЦ1.1: Better and faster mobility of road traffic
И1: Road freight transport
ПЦ1.2: Better and faster mobility of railway traffic
И1: Freight rail transport
ПЦ1.3: Better air traffic
И1: Number of passengers at airports
И2: Quantity of goods and mail in air traffic
<b>ОЦ2: Sustainable mobility of goods and people</b>
И1: CO2 emissions from transport
ПЦ2.1: "Green transport" (sustainable mobility)
И1: Reduction of the number of passenger cars per 1000 inhabitants
И2: Increasing the number of passengers in the railway traffic
<b>ОЦ3: Increasing transport safety</b>
И1: Number of injured and killed in traffic

<b>Justice</b>
<b>ОЦ1: Maintaining integrity and respect for civil democratic rights</b>
И1: Efficiency of the legal framework in resolving disputes (index)
И2: Average duration of proceedings by types of cases
ПЦ1.1: Improving the efficiency of the courts and ensuring legal certainty
И1: Average time to complete court cases
ПЦ1.2: Efficient and effective implementation of the process of resocialization of convicts
И1: Number of returnees in penitentiary / correctional institutions
ПЦ1.3: Protection of the rights and interests of the general public in the criminal justice system and the rights and interests of the Republic of Macedonia
И1: Number of cases solved by not undertaking criminal prosecution, and by removing harmful consequences and reintegrating the suspect in the system
И2: Number of agreements concluded between the public prosecutor and the defendant
И3: Number of convictions handed down

Legend:

ОЦ	General objective
ПЦ	Specific objective
И	Indicator

- **Fiscal Consolidation Indicators (Spending Standards)**

This analysis is aimed at rationalizing the costs incurred by budget users for their regular operations by setting certain standards, by also taking into account their specificity. When setting the spending standards at budget users, data were taken into account, pertaining to executed expenditures linked to the functioning of the institutions as regards the number of employed people.

Tables on average costs by budget users with respect to the expenditures are given below, those being the following: travel costs, utility services, materials and sundries, repairs and current maintenance, contractual services and other operating expenditures.

**INPUT CURRENT EXPENDITURE INDICATORS**

Budget user													
ed.no.	Indicator name	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1	Number of employees												
2	Average salary - monthly gross salary												
3	Number of temporary employees												
4	Expenses for temporary employees												
5	Number of contract employees												
6	Costs for contractual engagement of persons												
7	Operating expenses per employee												
8	Representation costs per employee												
9	Costs for telephone services per employee												
10	Office space per employee												
11	Office supplies per employee												
12	Number of vehicles												
13	Fuels and vehicle maintenance costs												
14	Outstanding liabilities in relation to the total budget												

- **List of EC indicators included in the Economic Reform Program and the EC Progress Report on Republic of North Macedonia**



**a) Labor market indicators and social indicators (ERP)**

	Source	2016	2017	2018	2019	2020
1. Activity rate (5) total (20-64)	Eurostat	69.6	70.3	70.4	71.5	:
- men	Eurostat	83.8	84.4	84.2	83.4	:
- women	Eurostat	54.9	55.7	56.3	59.3	:
2. Employment rate (5) total (20-64)	Eurostat	53.3	54.8	56.1	59.2	:
- men	Eurostat	63.7	65.6	66.6	69.7	:
- women	Eurostat	42.5	43.7	45.2	48.4	:
3. Unemployment rate (%) total	Eurostat	23.7	22.4	20.8	17.3	:
- men	Eurostat	24.4	22.8	21.3	16.5	:
- women	Eurostat	22.8	21.8	19.9	18.4	:
4. Long-term unemployment rate (%) total	Eurostat	19.1	17.4	15.5	13.1	:
- men	Eurostat	19.9	17.6	15.7	12.9	:
- women	Eurostat	17.8	17.1	15.1	13.5	:
5. Unemployment rate at youth population (15-24) (%)	Eurostat	48.2	46.7	45.4	35.6	:
- men	Eurostat	47.9	45.7	46.6	33.4	:
- women	Eurostat	48.8	48.6	43.2	38.9	:
6. Young people (15-24), not being employed and not included in the field of education or training (NEET), %	Eurostat	24.3	24.9	24.1	18.1	:
7. People leaving school early, % (Eurostat definition)	Eurostat	9.9	8.5	7.1	7.1	:
8. PISA rank	OECD	:	:	PISA 2015/2018 Reading 352/393 Mathematics 384/413 Science 371/394	:	:
9. IAAC rank	OECD	:	:	:	:	:
10. Activity rate in early childhood learning and care and upbringing	Eurostat	38.3	39.5	43.3	:	:
11. GINI coefficient	Eurostat	33.6	32.4	31.9	30.7	:
12. Unequal income distribution S80/S20, %	Eurostat	6.6	6.4	6.2	5.6	:
13. Costs for social protection as % of GDP	MoF	11.3	11.6	11.5	11.9	13.3
14. Costs for healthcare as % of GDP	MoF	4.9	4.9	4.9	5.0	8.5
15. Poverty rate before social transfers and	Eurostat	41.6	40.7	40.8	41.1	

pensions, %						
16. Poverty rate (indicate which data are available for the country)	Eurostat	21.9	22.2	21.9	21.6	:
17. Poverty gap (indicate which data are available for the country)	Eurostat	32.9	37.3	37.7	32.0	:
Other indicators used in the EU Social Scoreboard						
18. Realistically adjusted GDHI - per capita in PPS (Index 2008 = 100)	Eurostat	:	:	:	:	:
19. Impact of social transfers (except for pensions) on poverty reduction	Eurostat	14.8	14.3	14.8	15.0	:
20. Self-reported unmet need for medical care	Eurostat	2.9	2.5	2.3	2.5	:
21. Level of digital skills at population (% of the population with basic or above basic digital skills)	Eurostat	34	32	/	32	:

**b) Overview of main indicators per area/sector of the economy (ERP)**

Area/Sector	2016	2017	2018	2019	EU -27 average (2019 or most recent year)
<b>Energy</b>					
Energy imports dependency (%)	58.95%	56.45%	56.68%	/	60.62%(2017)
Energy intensity: kilograms of oil equivalent (KGOE) per thousand Euro	/	291.58	265.46	288.99	112.92
Share of renewable energy sources (RES) in final energy consumption (%)	18.04%	19.63%	18.18%	16.81%	19.73%
<b>Transport</b>					
Railway Network Density (meters of line per km <sup>2</sup> of land area)	26.85 <sup>w</sup>	26.85 <sup>w</sup>	26.85 <sup>w</sup>	26.85 <sup>w</sup>	49.0 <sup>(2018)</sup>
Motorization rate (passenger cars per 1000 inhabitants)	190	194	200	205	519 <sup>(2018)</sup>
<b>Agriculture</b>					
Share of gross value added (Agriculture, Forestry and Fishing)	10.6%	9.1%	9.8%	9.3%	1.8%
Share of employment (Agriculture, Forestry And Fishing)	16.2%	16.2%	15.7%	13.9	4.3%
Utilized agricultural area (% of total land area)	49.8%	49.7% <sup>w</sup>	49.7% <sup>w</sup>	49.7%	40.0% <sup>(2017, EU-28)</sup>
<b>Industry</b>					

Share of gross value added (except construction)	19.7%	20.5%	21.5%	20.7%	19.7%
Contribution to employment (% of total employment)	23.1%	23.3%	23.9%	24.1%	18.1%
<b>Services</b>					
Share of gross value added	61.7%	62.9%	62.5%	63.6%	73.0%
Contribution to employment (% of total employment)	53.1%	53.2%	52.9%	55.0%	70.8%
<b>Business Environment</b>					
Rank in WB Doing Business (Source: World Bank)	16	10	11	10	/
Rank in Global Competitiveness Index (Source: World Economic Forum)	63	60	84	82	/
Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Up to 37.6%	/	/	/	/
<b>Research, Development and Innovation</b>					
R&D intensity of GDP (R&D expenditure as % of GDP)	0.44%	0.35%	0.36%	0.37%	2.2%
R&D expenditure - EUR per inhabitant	EUR 20.30	EUR 17.20	EUR 18.8	EUR 19.9	EUR 688.6
<b>Digital Economy</b>					
Percentage of households who have internet access at home	75%	74%	79%	82%	86% <sup>(2018)</sup>
Share of total population, using internet in the three months prior to the survey (NB: population 16-74)	72%	75%	79%	81%	85% <sup>(2018)</sup>
<b>Trade</b>					
Export of goods and services (as % of GDP)	50.7%	55.1%	60.4%	62.3%	49.4%
Import of goods and services (as % of GDP)	65.5%	69.0%	72.8%	76.5%	45.7%
Trade balance (as % of GDP)	-18.5%	-18.1%	-16.8%	-18.2%	/
<b>Education and Skills</b>					
Early leavers from education and training (% of population aged 18-24)	9.9%	8.5%	7.1%	7.1%	10.5%
Youth NEET (% of population aged 15-24)	24.3%	24.9%	24.1%	18.1%	10.5%
Formal child care - children aged less than 3 years (% of total)	9.1%	10.3%	8.8%	13.0%	35.1%
Individuals' level of digital skills (% of individuals aged 16-74 who have basic or above basic overall digital skills by sex)	34%	32%	/	32%	56%
<b>Employment</b>					
Employment Rate (% of population aged 20-64)	53.3%	54.8%	56.1%	59.2%	73.1%
Unemployment rate (% of labor force aged 15-64)	23.7%	22.4%	20.8%	17.3%	6.7%
Gender employment gap (percentage points difference between the employment rates of men and women aged 20-64)	21.2 p.p.	21.9 p.p.	21.4 p.p.	21.3 p.p.	11.7 p.p.
<b>Social Protection System</b>					
% of population at risk of poverty or social	41.1%	41.6%	41.1%	39.9%	20.9%

<b>exclusion</b>					
<b>Impact of social transfers (Other than pensions) on poverty reduction</b>	14.79%	14.29%	14.79%	14.96%	32.380%
<b>Self-reported unmet need for medical care (of people over 16)</b>	2.9%	2.5%	2.3%	2.5%	1.7%
<b>Income quintile share ratio S80/S20 for disposable income by sex and age group (Comparison ratio of total income received by the 20% with the highest income to that received by the 20% with the lowest income)</b>	6.63	6.38	6.16	5.56	4.99

### c) Statistical data, being attached to the EU Progress Report on North Macedonia

#### A. National accounts

1. Gross domestic product (GDP) (million national currency)
2. Gross domestic product (GDP) (million euro)
3. GDP (euro per capita)
4. GDP per capita (in purchasing power standards (PPS))
5. GDP per capita (in PPS), relative to the EU average (EU-27 = 100)
6. Real GDP growth rate: change on previous year of GDP volume (%)
7. Employment growth (national accounts data), relative to the previous year (%)
8. Labour productivity growth: growth in GDP (in volume) per person employed, relative to the
9. previous year (%)
10. Unit labour cost growth, relative to the previous year (%)
11. \*\*3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)
12. Labour productivity per person employed: GDP (in PPS) per person employed relative to EU
13. average (EU-27 = 100)

#### B. Gross value added by main sectors

1. Agriculture, forestry and fisheries (%)
2. Industry (%)
3. Construction (%)
4. Services (%)
5. Final consumption expenditure,
6. Gross fixed capital formation, as a share of GDP (%)
7. Changes in inventories, as a share of GDP (%)
8. Exports of goods and services, relative to GDP (%)
9. Imports of goods and services, relative to GDP (%)
10. Gross fixed capital formation by the general government sector, as a percentage of GDP (%)

#### C. Business

11. Industrial production volume index (2015 = 100)
12. Number of active enterprises (number)
13. Birth rate: number of enterprise births in the reference period (t) divided by the number of
14. enterprises active in t (%)
15. Death rate: number of enterprise deaths in the reference period (t) divided by the number of
16. enterprises active in t (%)
17. People employed in SMEs as a share of all persons employed (within the non-financial

- 18. business economy) (%)
- 19. Value added by SMEs (in the non-financial business economy) (EUR million)
- 20. Total value added (in the non-financial business economy) (EUR million)

#### **D. Inflation rate and house prices**

- 21. Harmonised consumer price index (HICP), change relative to the previous year (%)
- 22. \*\*Annual change in the deflated house price index (2015 = 100)

#### **E. Balance of payments**

- 23. Balance of payments: current account total (million euro)
- 24. Balance of payments current account: trade balance (million euro)
- 25. Balance of payments current account: net services (million euro)
- 26. Balance of payments current account: net balance for primary income (million euro)
- 27. Balance of payments current account: net balance for secondary income (million euro)
- 28. Net balance for primary and secondary income: of which government transfers (million euro)
- 29. \*\*\*3 year backward moving average of the current account balance relative to GDP (%)
- 30. \*\*Five year change in share of world exports of goods and services (%)
- 31. Net balance (inward - outward) of foreign direct investment (FDI) (million euro)
- 32. Foreign direct investment (FDI) abroad (million euro)
- 33. of which FDI of the reporting economy in the EU-27 countries (million euro)
- 34. Foreign direct investment (FDI) in the reporting economy (million euro)
- 35. of which FDI of the EU-27 countries in the reporting economy (million euro)
- 36. \*\*Net international investment position, relative to GDP (%)
- 37. Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)

#### **F. Public finance**

- 39. \*\*\*General government deficit / surplus, relative to GDP (%)
- 40. \*\*\*General government gross debt relative to GDP (%)
- 41. Total government revenues, as a percentage of GDP (%)
- 42. Total government expenditure, as a percentage of GDP (%)

#### **G. Financial indicators**

- 43. Gross external debt of the whole economy, relative to GDP (%)
- 44. Gross external debt of the whole economy, relative to total exports (%)
- 45. Money supply: M1 (banknotes, coins, overnight deposits, million euro)
- 46. Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)
- 47. Money supply: M3 (M2 plus marketable instruments, million euro)
- 48. Total credit by monetary financial institutions to residents (consolidated) (million euro)
- 49. \*\*Annual change in financial sector liabilities (%)
- 50. \*\*Private credit flow, consolidated, relative to GDP (%)
- 51. \*\*Private debt, consolidated, relative to GDP (%)
- 52. Interest rates: day-to-day money rate, per annum (%)
- 53. Lending interest rate (one year), per annum (%)
- 54. Deposit interest rate (one year), per annum (%)
- 55. Euro exchange rates: average of period (1 euro = ... national currency)
- 56. Trade-weighted effective exchange rate index, 42 countries (2005 = 100)
- 57. \*\*\*3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries
- 58. (2005 = 100)

59. Value of reserve assets (including gold) (million euro)

#### **H. External trade in goods**

60. Value of imports: all goods, all partners (million euro)

61. Value of exports: all goods, all partners (million euro)

62. Trade balance: all goods, all partners (million euro)

63. Terms of trade (export price index / import price index \* 100) (number)

64. Share of exports to EU-27 countries in value of total exports (%)

65. Share of imports from EU-27 countries in value of total imports (%)

#### **I. Demography**

66. Crude rate of natural change of population (natural growth rate): number of births minus

67. deaths (per thousand inhabitants)

68. Infant mortality rate deaths of children under one year of age (per thousand live births)

69. Life expectancy at birth: male (years)

70. Life expectancy at birth: female (years)

#### **J. Labour market**

71. Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that

72. is economically active (%)

73. \*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are

74. in employment (%)

75. Male employment rate for persons aged 20–64 (%)

76. Female employment rate for persons aged 20–64 (%)

77. Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are

78. in employment (%)

##### **▪ Employment by main sectors**

79. *Agriculture, forestry and fisheries (%)*

80. *Industry (%)*

81. *Construction (%)*

82. *Services (%)*

83. People employed in the public sector as a share of total employment, persons aged 20–64

84. (%)

85. People employed in the private sector as a share of total employment, persons aged 20–64

86. (%)

87. Unemployment rate: proportion of the labour force that is unemployed (%)

88. Male unemployment rate (%)

89. Female unemployment rate (%)

90. Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)

91. Long-term unemployment rate: proportion of the labour force that has been unemployed for

92. 12 months or more (%)

93. Unemployment rate for persons (aged 25–64) having completed at most lower secondary

94. education (ISCED levels 0-2) (%)

95. Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED

96. levels 5-8) (%)

#### **K. Social cohesion**

97. Average nominal monthly wages and salaries (national currency)

98. Index of real wages and salaries (index of nominal wages and salaries divided by the inflation

- 99. index) (2010 = 100)
- 100. GINI coefficient
- 101. Poverty gap
- 102. \*Early leavers from education and training: proportion of the population aged 18–24 with at
- 103. most lower secondary education who are not in further education or training (%)

#### **L. Standard of living**

- 104. Number of passenger cars relative to population size (number per thousand population)
- 105. Number of mobile phone subscriptions relative to population size (number per thousand
- 106. population)
- 107. Mobile broadband penetration (per 100 inhabitants)
- 108. Fixed broadband penetration (per 100 inhabitants)

#### **M. Infrastructure**

- 109. Density of railway network (lines in operation per thousand km<sup>2</sup>)
- 110. Length of motorways (kilometres)

#### **N. Innovation and research**

- 111. Public expenditure on education relative to GDP (%)
- 112. \*Gross domestic expenditure on R&D relative to GDP (%)
- 113. Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP(%)
- 114. Percentage of households who have internet access at home (%)

#### **O. Environment**

- 115. \*Index of greenhouse gas emissions, CO<sub>2</sub> equivalent (1990 = 100)
- 116. Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)
- 117. Electricity generated from renewable sources relative to gross electricity consumption (%)
- 118. Road share of inland freight transport (based on tonne-km) (%)

#### **P. Energy**

- 119. Primary production of all energy products (thousand TOE)
- 120. Primary production of crude oil (thousand TOE)
- 121. Primary production of solid fuels (thousand TOE)
- 122. Primary production of gas (thousand TOE)
- 123. Net imports of all energy products (thousand TOE)
- 124. Gross inland energy consumption (thousand TOE)
- 125. Gross electricity generation (GWh)

#### **R. Agriculture**

- 126. Agricultural production volume index of goods and services (at producer prices) (2010 = 100)
- 127. Utilised agricultural area (thousand hectares)
- 128. Livestock numbers: live bovine animals (thousand heads, end of period)
- 129. Livestock numbers: live swine (thousand heads, end of period)
- 130. Livestock numbers: live sheep and live goats (thousand heads, end of period)
- 131. Raw milk available on farms (thousand tonnes)
- 132. Harvested crop production: cereals (including rice) (thousand tonnes)
- 133. Harvested crop production: sugar beet (thousand tonnes)
- 134. Harvested crop production: vegetables (thousand tonnes)