



**REPUBLIC OF NORTH MACEDONIA
GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA**

2024-2028 FISCAL STRATEGY OF THE REPUBLIC OF NORTH MACEDONIA

Skopje April 2023

Summary of 2024-2028 Fiscal Strategy of the Republic of North Macedonia

Public Finance Management System in the Republic of North Macedonia is regulated under the Organic Budget Law. In addition to regulating the procedure for preparation, adoption, execution of the Budget of the Republic of North Macedonia and the budgets of both the local government units and the City of Skopje, the Law also regulates, for the first time, the fiscal rules and the fiscal principles, the establishment of a Fiscal Council, the strengthening of medium-term budget planning, the fiscal risks, as well as the fiscal responsibility and the basis for establishment of an integrated public financial management information system.

Improvement of public financial management and strengthening the medium-term budget planning in the next 5 years is one of the top priorities of the Government of the Republic of North Macedonia as part of the EU accession process.

This Fiscal Strategy is prepared in line with the timeframe set under the provisions in the new OBL, incorporating more information with qualitative and quantitative data through a sector expenditure analysis.

In order for the fiscal policy to be sustainable over the medium term, fiscal projections envisage a framework for adhering to the fiscal rules, designed so as to be harmonised and consistent with the EU fiscal rules.

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections.

Over the medium term, amid easing of the unfavorable effects of the overlapping crises, it is expected for the global trends to get back to normal, inflationary pressures to reduce and economic activity at our major trading partners to strengthen, thus contributing to increased external demand and more favourable investment climate.

In the past period, domestic economy showed resilience to the subsequent shocks induced by global factors. Timely response by the fiscal policy has continuously, and to a great extent, limited the effects of these shocks. From the very beginning of the crisis, in addition to continuing the measures aimed at support and recovery during and after the pandemic, the Government responded timely to the end of slowing down the spillover effect of the imported inflation, thus ensuring full and stable supply of electricity and avoiding the price shocks. The measures were targeted at the vulnerable categories of citizens affected by the crisis, with the objective being to protect the living standard, maintain companies' liquidity and support investments in energy efficiency and renewable energy sources, all to the end of ensuring energy stability over the long term.

Ongoing fiscal consolidation supports the economy through investments in infrastructure projects, redesigning the public finance structure by increased share of capital expenditures, as well as strengthening the process of planning, executing and reporting as regards the public finance.

Medium-term fiscal policy envisages gradual fiscal consolidation, whereby annual level of budget deficit is consistent with the projections in the previous Fiscal Strategy. Thereby, budget deficit is reduced as a percentage share of GDP, as follows: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026, 2.8% in 2027 and 2.5% in 2028. Primary budget deficit will accordingly decline gradually, as follows: 3.2% of GDP in 2023, 1.7% in 2024, 1.0% in 2025, 0.9% in 2026, 0.6% in 2027 and 0.4% in 2028.

Share of capital expenditures accounting for more than 5% of GDP on annual basis is of key importance for generating economic growth and development.

Medium-Term Fiscal Strategy includes limits on budget expenditures, limits by budget user, as well as medium-term projections for the local government and the public enterprises and the state-owned joint stock companies.

Main priorities as regards the tax system are increased efficiency and effectiveness of revenue collection, enhanced tax transparency, improved quality of services rendered by tax system institutions, by simplifying and speeding up procedures and reducing the administrative burden through further digitalisation of services, as well as by introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction. Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on regular basis.

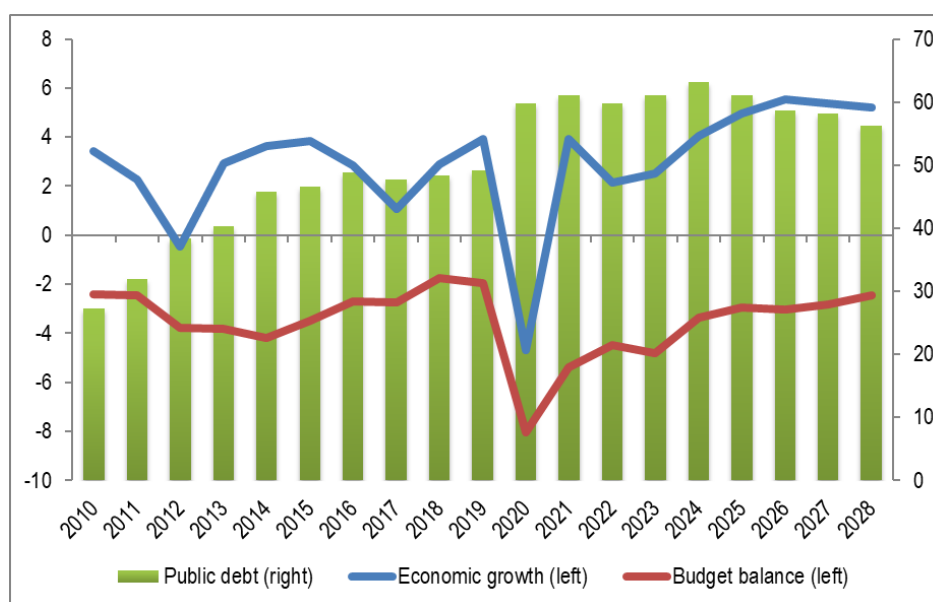
In the coming period, we remain committed to expenditures in support of achieving the strategic priorities, accelerating the economic growth, the EU integration processes and fulfilling the obligations arising from the NATO membership.

Decentralisation process continues, aimed towards improved public services and intensified local development in the interest of the citizens, as well as equal regional development. By improving the administration's efficiency and prescribing new local revenues, local government own revenues will be increased.

For the purpose of strengthening the fiscal decentralisation, many activities and measures have been envisaged, being grouped in three pillars, as follows: I. Improved fiscal capacity and increased municipal revenues, II. Strengthened fiscal discipline and III. Increased transparency and accountability as regards municipalities' operations. Ultimate goal of this process is achieving better quality of public services, higher economic growth and better living standard.

Main objective of the public debt management policy is to ensure the funds necessary to finance the budget deficit and repay the due liabilities on the basis of prior borrowings, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

Chart: Trends of economic growth, budget deficit and public debt



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Pursuant to paragraph 5, Article 17 of the Organic Budget Law ("Official Gazette of the Republic of North Macedonia", no. 203/2022), Government of the Republic of North Macedonia, at its session held on ____ April 2023, adopted the 2024 - 2028 Fiscal Strategy of the Republic of North Macedonia.

Introduction

Fiscal Strategy is a document of the Government of the Republic of North Macedonia, presenting the assumptions for macroeconomic forecasts and the guidelines of the fiscal policy for the current and the next five years. The last adopted Fiscal Strategy constitutes the basis for preparation of other fiscal policy documents, including the documents submitted to the EU institutions. Ministry of Finance prepares the Fiscal Strategy and submits it to the Government of the Republic of North Macedonia, taking into account the strategic priorities of the Government and the proposals of the parent budget users.

Starting this year for the first time, Ministry of Finance has announced, on its website, a plan with set time framework for the preparation of the Fiscal Strategy. In addition, in accordance with the new legally prescribed deadlines, Ministry of Finance has submitted a circular letter on the fiscal strategy, including guidelines for preparation of the fiscal strategy, to the budget users as per the plan with set time framework. Fiscal projections are prepared on the basis of the existing legislation and the existing obligations (baseline scenario) and a proposal for new projects and new liabilities (new initiatives). The Government then adopts the Fiscal Strategy, including an Annex containing the maximum amounts of appropriations (expenditure limits) by budget user, which will be an integral part of the Budget Circular for the preparation of the next year's budget.

Medium-Term Fiscal Strategy is in line with the medium-term fiscal goals and strategic priorities of the Government of the Republic of North Macedonia and it provides for monitoring the dynamics of revenues and expenditures in relation to the fiscal goals.

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.

In addition to the commitment to fiscal consolidation and budget savings, economy continues to be supported by investing in infrastructure projects, redesigning the public finance structure by increased share of capital expenditures, as well as strengthening both the transparency and the accountability.

1. Macroeconomic Trends and Forecasts

1.1 International Economic Trends and Forecasts¹

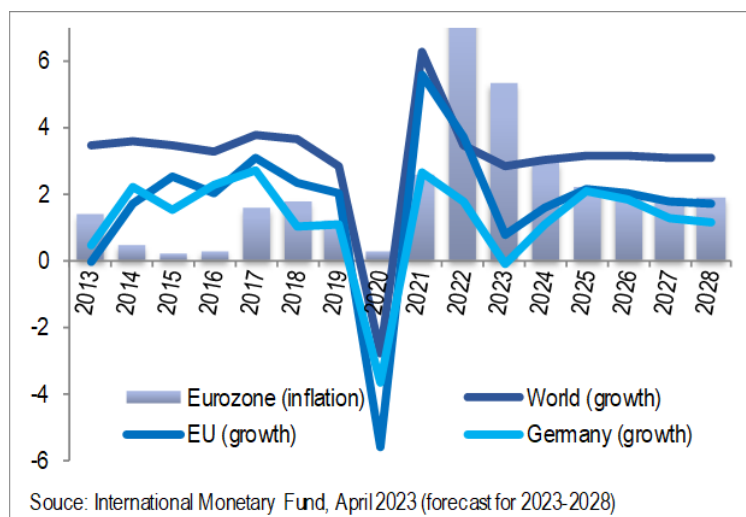
Throughout 2022, global economy faced a number of challenges and uncertainty. Inflation reaching multidecade highs, Russia's invasion of Ukraine and the lingering COVID-19 pandemic, all weighed heavily on the global economic growth outlook. Narrowed fiscal space following the pandemic, as well as tightened monetary policy aimed at reducing the high inflation rate, adversely impacted the economic activity.

Such trends continued to a large extent at the beginning of 2023 as well. In addition, as central banks increased the interest rates, banking sector vulnerability has come into focus. Thereby, spillovers from the banking sector to the financial sector in general pose a risk. Public debt levels are still high, limiting the fiscal space the Governments could use to support the economy. Moreover, war conflict in Ukraine continues, and geopolitical tensions remain high. On the other hand, commodity prices on the global market that rose sharply last year have moderated, and COVID-19 waves in China have been subsided. This will have a positive effect on global trade and activity, considering the size of the China's economy and its importance for the global supply chains. Still, risks in 2023 are firmly to the downside with the increased uncertainty from the recent financial sector turmoil.

Global economy in 2022 slowed down, growing by 3.4%, while economic activity in the EU grew by 3.7%, amid positive contribution of private consumption and gross investments. German economy grew by 1.8% amid recovery of the private consumption. Inflation considerably accelerated in 2022 against the backdrop of food and energy price spikes and price pressures caused by the war conflict in Ukraine. Global inflation reached 8.7%, while inflation across the Eurozone was 8.4%.

¹ Analysis of this part is based upon the International Monetary Fund Report "World Economic Outlook", published in April 2023.

Chart 1: Economic Growth and Inflation (%)



Global growth will bottom out at 2.8% this year before rising to 3.0% in 2024, followed by stabilisation of growth at around 3.2% in the period 2025 - 2028. EU economy in 2023 is projected to grow by 0.8%, following the solid growth in the previous two years. Growth rate in 2024 is projected at 1.6%, while average economic growth in the EU is projected at 1.9% annually in the period 2025 - 2028. German economy, as the largest within the EU and most important for the domestic exporters, is envisaged to decline by 0.1% in 2023, shifting to the positive zone in 2024, with 1.1% growth. Average annual growth of 1.6% is forecasted in the medium term, i.e. 2025 - 2028 period. Inflation in the Eurozone is expected to gradually slow down, reaching 5.3% in 2023, then drop to 2.9% in 2024.

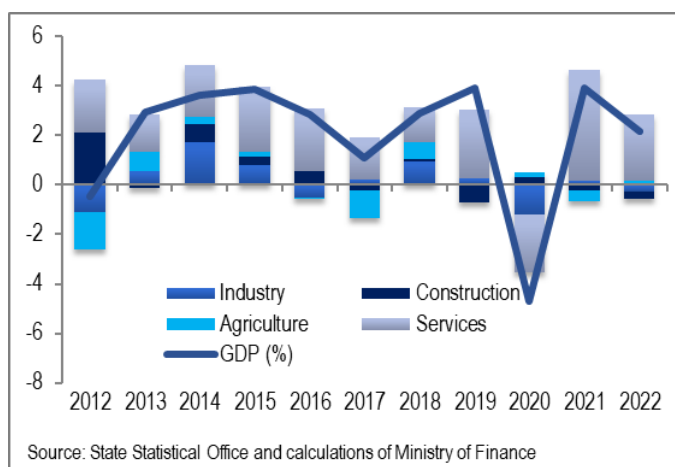
Globally, the inflation is far more persistent than anticipated. Still, inflation started to fall as a result of the high energy and food prices coming down, as well as the increase of the interest rates. On the other hand, core inflation is still rising in many countries. Against this backdrop, headline inflation is expected to slow down, however, more slowly than initially anticipated. Headline inflation of 8.7% in 2022 is expected to fall to 7.0% in 2023 and 4.9% in 2024. Average inflation rate for the period 2025 - 2028 is projected at 3.6%. Inflation is projected to be 4.7% in the advanced economies and 8.6% in the developing economies in 2023, dropping to 2.6% in the former in 2024, remaining at relatively high 6.5% in the latter. Inflation in the Eurozone is expected to decline to 5.3% in 2023, being still high, before slowing down in the medium term and standing at around 2% starting 2025.

1.2 Economic Trends in the Republic of North Macedonia

Following the solid recovery in 2021 with 3.9% growth, domestic economy growth in 2022 was largely subdued by the global developments, above all the war conflict in Ukraine, coupled with deepening of the energy crisis, the rising inflation and the tightened financial conditions in response to the reinforced inflation expectations. Against this background, domestic economy registered a solid growth of 3.1% in the first half of the 2022, slowing down to 1.2% in the second half as a result of the protracted crisis effects, with the average economic growth of 2.1% in 2022.

Economic growth in 2022 was a result of the positive performance in the services sector and the agriculture sector. Activity in the services sector grew by 4.7%, above all as a result of the favourable trends in the field of trade, transport and hospitality industry, growing by 7.8%, with the strong post-pandemic recovery in this activity continuing. Data in the first two months in 2023 show real growth in turnover in retail trade by 1.3%, whereby following the strong growth in January, turnover in retail trade dropped in February. Activities in the field of Real estate, Arts, entertainment and recreation, as well as Professional, scientific and technical activities, had higher positive contribution thereto. Agriculture sector registered growth of 2.0%.

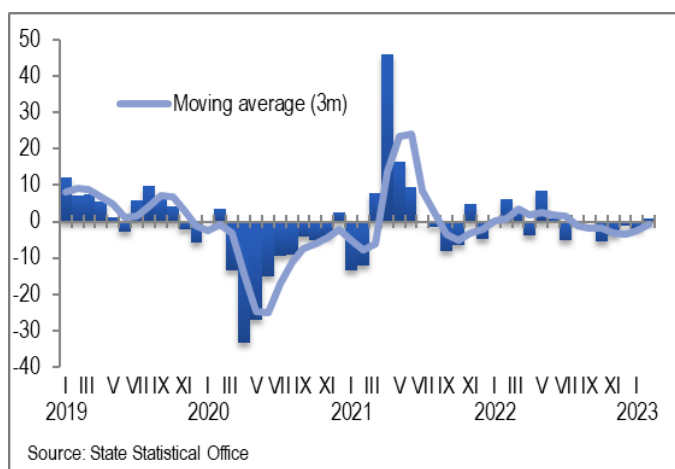
Chart 2. Economic Growth Structure by Production Approach (contribution to growth, p.p.)



Activity in the Industry declined by 1.5% amid 1.8% drop in Manufacturing. Electricity supply and mining of coal and lignite registered high growth as a result of the efforts to boost the domestic supply of electricity in times of energy crisis. As regards Manufacturing, manufacture of machinery and equipment and manufacture of pharmaceutical products and preparations had major positive impact thereon, while manufacture of metal, food products and tobacco products had the highest negative contribution. Industrial production in the first two months in 2023 declined by 0.5% compared to the same period in 2022, with the production shifting to the positive zone in February 2023 following the decline in January. Volatile trends in the industry were in large part a result of the energy crisis impact on certain activities, above all manufacture of metals, while electricity supply continued to experience high increase of 33.3% in the first two months.

Construction activity registered 8.4% decline in real terms in 2022. In line with high-frequency data, it registered high annual real growth of 50.9% amid high growth at both civil engineering structures and buildings. Increased number of issued building permits by 46% in the first two months in 2022, as well as the start of the implementation of major infrastructure projects, are expected to have major positive impact on the construction sector.

Chart 3. Annual Growth of Industrial Production (%)

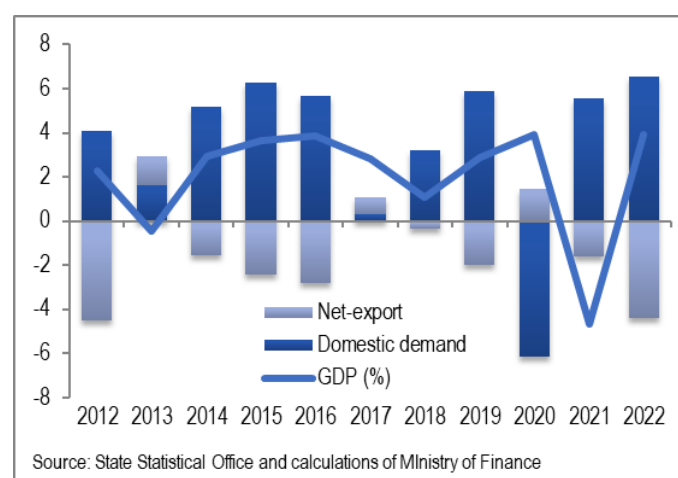


Analyzed by the expenditure side of GDP, economic growth in 2022 was entirely a result of the stronger domestic demand, amid scaled-up gross investments and increased consumption, while the contribution of net export to growth was negative. Gross investments grew by 15.0%, mainly as a result of the increase of inventories (intermediary goods and raw materials, energy products), as well as the increased import of machinery and equipment, so as to mitigate the unfavourable effects from the war conflict on the availability and the prices of these

products, especially in the first half of the year. Increased capital expenditures had positive contribution to growth of investments. Consumption recorded a 2.0% growth in real terms, with the private consumption, supported by the growth of wages, the remittances and the solid credit activities increasing by 3.1%. Public consumption dropped by 2.6% as a result of the efforts to reduce the less productive expenditures.

Strong export of goods and services continued in 2022, increasing by 13.4%, however, import grew by 16.1% in real terms, by which net export had negative contribution to the economic growth. Stronger import was mainly a result of the import of intermediary goods, surging by 32.0%. Trade deficit was higher by 40.9% compared to 2021, whereby 76.9% of the increase of total trade deficit was a result of the increased energy trade deficit (electricity, oil and gas) because of the high prices on the international markets, amid reduced quantities of net imported electricity by 43% and gas by 19.5%. Positive trends in foreign trade continued in the first two months in 2023, although with slower pace, whereby export of goods registered high growth rates of 10.2%, with import of goods dropping by 1.5%, causing for trade deficit to drop by 26.3%. In February, import of goods declined by 7.0% on annual basis, being the first decline after quite some time, mainly as a result of the reduced import of electricity.

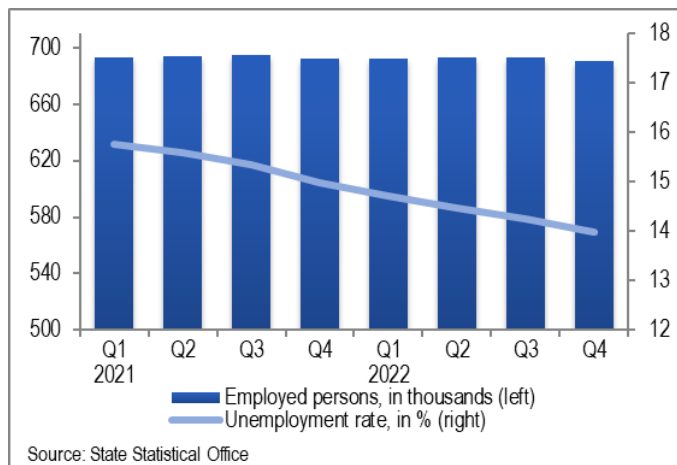
Chart 4. Economic Growth by Expenditure Approach (contribution to growth, p.p.)



According to the Labour Force Survey², unemployment rate in the course of the year experienced a downward trend, dropping to 14.0% in Q4, accounting for 1.0 p.p. decline compared to the same quarter in 2021 (Chart 3). Average unemployment rate in 2022 was 14.4%. Employment rate was 47.3%, increasing slightly in relation to 2021. Highest employment growth was registered in the services sector, in particular information and communication activity, education and accommodation and food service activities. Number of employees in the industry increased in all sectors, most notably in the energy sector, picking up by 34.2%. Employment rate in the construction sector remained almost unchanged (0.6% decline), while it significantly increased in agriculture sector by 15.5%.

² State Statistical Office published the data for the 2021 and 2022 Labour Force Survey, processed in line with the population forecasts in the 2021 Census. News Release with processed data from the 2019 and 2020 Labour Force Survey will be announced in the course of 2023.

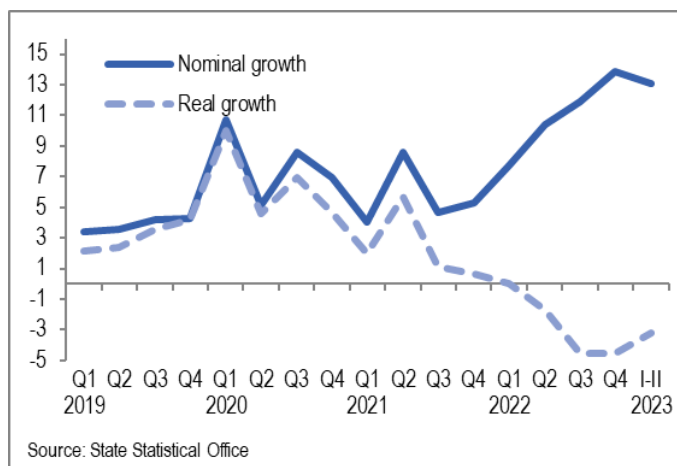
Chart 5. Number of Employees and Unemployment Rate



In 2022, average net wage grew by 10.9% in nominal terms on annual basis, and starting March, growth intensified as a result of the minimum wage increase. Average wage increase was registered in all sectors, most notably at Accommodation and food service activities (18.2%), Arts, entertainment and recreation (16.4%) and Manufacturing (14.6%). High increase of wages continued in the first two months in 2023, surging by 13.1% on annual basis.

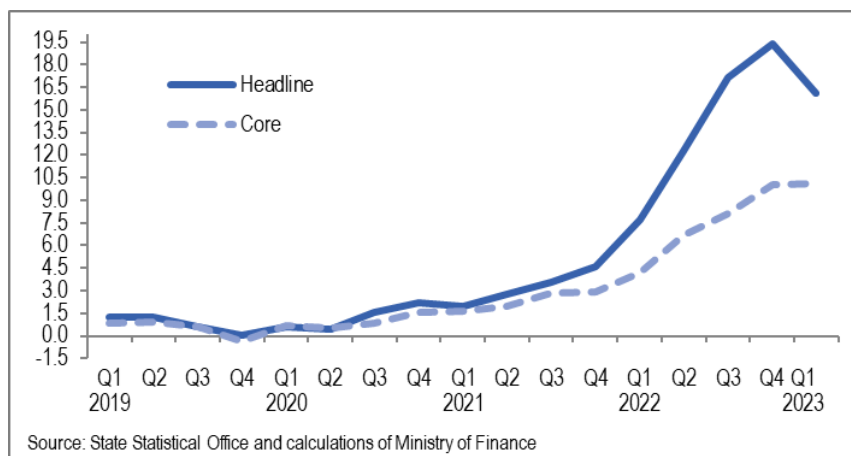
Chart 6 shows the wage growth dynamics by quarters.

Chart 6. Average Net Wage Growth (%)



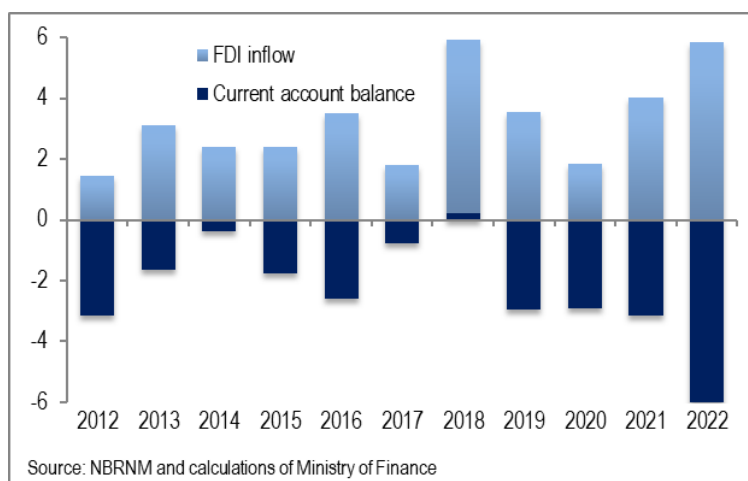
Inflation rate in 2022 reached 14.2%, thus reflecting the price pressures exerted on the supply, triggered by global factors, which resulted in an upward trend of prices of commodities on the international market, spilling over to the domestic economy, mostly through the rising prices of food products, electricity and oil derivatives. Effect from the rising prices also spilled over to the core inflation, which was 7.3%. Inflation slowed down in Q1 2023, accounting for 16.1%, following the peak in the last quarter in 2022. Growth slowdown was observed at oil derivatives and energy products, with food remaining to be the driver of growth, although with a lower contribution to headline inflation. Core inflation, however, experienced high growth rates of 10.1% in Q1, registering higher contribution to headline inflation. Food prices in March 2023 dropped on monthly basis, reflecting the effect of the Government measures for reduction and freezing of prices in retail sales of certain categories of food products which account for the most of the food component of inflation.

Chart 7. Headline and Core Inflation (%)



Deficit in the amount of EUR 772 million (6.0% of GDP) was registered on the balance of payments' current account in 2022, being significantly higher compared to 2021. Such trends on the current account were a result of the widened trade deficit of 45.7%, above all as a result of the increased energy deficit, as well as the increased primary income deficit of 7.1%, despite the surplus at the secondary income and the services account. Current transfers (remittances) continued experiencing favourable trends, increasing by 29.3% in relation to 2021. Positive trends at foreign direct investments (FDIs) continued in 2022, reaching all-time record EUR 754 million, being higher by 60.2% compared to 2021. Thereby, 39.3% of the total inflow was in the form of equity and reinvested profit, with the remaining part pertaining to debt instruments. Reserve assets, which declined since the onset of the crisis, experienced growth starting Q3 2022 and amounted to EUR 3.86 billion at the end of December 2022, surging by 6.0% on annual basis. Increase in reserve assets continued in 2023 as well, amounting to EUR 4.16 billion at end-March and being higher by 27.1% on annual basis, providing for 4-month coverage of import of goods and services, thus being at an adequate level.

Chart 8. Current Account Balance and FDI Inflow (% of GDP)



Amidst protracted and reinforced price pressures, impacting the inflation expectations, the National Bank adequately responded thereto, increasing its policy rate at several occasions since April 2022, thereby reaching 5.50% in March 2023 (from 1.25% in March 2022), accompanied by changes as regards the reserve requirement as well. On annual basis, total credits grew by 7.7% in February 2023, amid growth of both credits to households of 8.2% and credits to enterprises of 7.2%. Total deposit potential in February 2023 grew by 5.9% on annual basis, with Denar deposits increasing by 6.3% and foreign currency deposits picking up by 5.7%.

1.3 Medium-Term Macroeconomic Projections

In the past period, domestic economy showed resilience to the subsequent shocks induced by global factors. Timely response by the fiscal policy has continuously, and to a great extent, limited the effects of these shocks. Following the strong recovery in 2021, domestic economy growth in 2022 was largely subdued by the global developments, causing for a slow post-pandemic revival. From the very beginning of the crisis, and for the purpose of continuing the measures designed for support and recovery during and after the pandemic, the Government responded timely to the end of slowing down the spillover effect of the imported inflation, thus ensuring full and stable supply of electricity and avoiding the price shocks. The measures were targeted at the vulnerable categories of citizens affected by the crisis, with the objective being to protect the living standard, maintain companies' liquidity and support investments in energy efficiency and renewable energy sources, all to the end of ensuring energy stability over the long term.

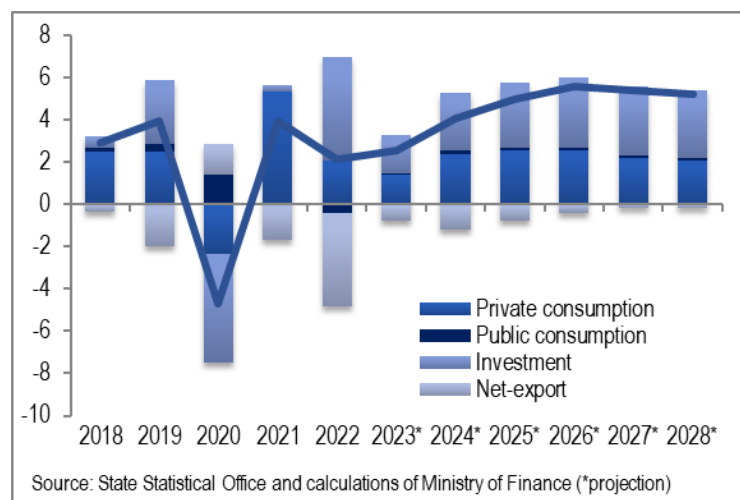
In the course of 2023 as well, economic activity will continue to be accompanied with increased uncertainty due to the continuing war conflict in Ukraine, the geopolitical tensions, longer than expected high level of inflation, the tightened financial conditions by the central banks, as well as the increased risks in the financial sector caused by the recent banking sector turmoil. Although growth estimates for the global economy, above all the European economy, are slightly improved, they still remain low. Thereby, economic activity in Germany, as the largest economy within the EU and our major trading partner, is expected to decline. Such events are expected to adversely affect the foreign demand, as well as the domestic demand, i.e. investments in fixed assets and consumption.

Economic growth in 2023 is expected to be 2.5%, slightly revised downward in relation to the previous growth expectations of 2.9%. Domestic demand is expected to be the main driver of growth, amid slightly weaker private consumption, while net export is expected to have lower negative contribution amid more moderate growth of export and import of goods and services.

Over the medium term, amid easing of the unfavorable effects of the overlapping crises, it is expected for the global trends to get back to normal, inflationary pressures to reduce and economic activity at our major trading partners to strengthen, thus contributing to increased external demand and more favourable investment climate.

Recovering of the external environment will provide for more efficient implementation of the economic policies and measures contained in the Fiscal Sustainability and Economic Growth Plan, the Public Investment Plan and the Growth Acceleration Plan. Redesigned public expenditures, by intensifying the public investment cycle, as well as the measures geared towards accelerated, inclusive and sustainable economic growth, will have significant impact on both investment demand and potential for economic growth. State support aimed at strengthening the private sector and boosting the competitiveness, innovations and technological development of the enterprises, by providing alternative sources and instruments of financing, is one of the key aspects of the Growth Acceleration Plan. Hence, over the medium term, growth is expected to gradually intensify and average growth rate is expected to account for 5% in the period 2024 - 2028.

Chart 9. GDP Growth Expenditure Structure (contribution to GDP/growth, percentage points)



Economic growth decomposition indicates that investments will play a crucial role in maintaining economic activity and its intensification in the medium term (Chart 9). High level of capital expenditures, above all the start of the construction of Corridor 8 and Corridor 10d, as major infrastructure projects, coupled with mechanisms for their execution, is expected to maintain the gross investments at a solid level and be the drivers of economic activity growth. Gross investments are projected to grow by 5.1% in real terms in 2023, while in the period 2024 - 2028, investments are expected to record average annual growth of 8.4%, as a result of the expected scaled-up investments by foreign companies, more intensive inflows of FDIs, increased capital expenditures, as well as continuous support to private sector development and boosted competitiveness, support to innovations and technologic development of enterprises. Significant impulse to growth of investments is expected by domestic and foreign companies interest in investing in renewable energy as a response to the energy crisis, which will accelerate the process towards green transition, to a large extent also supported by the Government measures. NATO membership and start of EU membership negotiations will additionally have a positive contribution to investments.

Price pressures, which are expected to continue in the course of 2023, as well as increased financing costs, will reflect on the household disposable income. On the other hand, increased minimum wage, increased wages in certain departments in the public sector and increased average wage, increased pensions, as well as the Government measures to reduce food and energy costs, will, to a great extent, underpin the private consumption, which is expected to surge by 2.0% in 2023. In the period 2024 - 2028, private consumption is expected to experience average annual growth of 3.5%, as a result of the expectations for further improvement of labour market conditions, stable private transfers and easing of the financial conditions.

Public consumption is expected to experience a moderate growth of 0.5% in 2023, in line with the efforts to reduce the non-priority budget expenditures by implementing the fiscal consolidation process and redesigning the public expenditures contained in the Fiscal Sustainability and Economic Growth Plan. Public consumption in the period 2024 - 2027 is expected to grow with a moderate pace, i.e. 1% average annual growth is projected.

Expectations for a limited global economic growth and external demand in 2023 will limit the growth of export of goods by the domestic companies. Good performance of companies in the industrial zones, expansion of the capacities and announcements for fresh investments will keep the export at solid level considering the circumstances, projected at 4.5% in real terms. In the medium term, amid expected stabilisation of growth of external demand and increased export potential in the country via inflow of FDIs, export is expected to have a solid contribution to the economic growth, i.e. it is projected to experience average annual growth of 8.5% in real terms in the period 2024-2028.

Import of goods and services, which considerably slowed down in Q4 2022, amid moderate increase of export activity and domestic demand, is expected to grow by 4.3% in real terms in 2023, resulting in lower negative contribution of net export to the economic growth. Certain stabilisation of the import demand is envisaged in the period to come, i.e. average annual growth of import of goods and services is projected at 7.3% in the period 2022-2026, with a gradual narrowing of the negative contribution of net export to the economic growth.

Table 1. Key Macroeconomic Indicators for North Macedonia

	2021	2022	2023*	2024*	2025*	2026*	2027*	2028*
GDP, real growth rate (%)	3.9	2.1	2.5	4.0	5.0	5.6	5.4	5.2
Inflation rate (average)	3.2	14.2	8.9	2.5	2.0	2.0	2.0	2.0
Gross capital formation (% of GDP)	32.3	35.0	34.8	35.7	36.9	38.0	39.1	40.2
Current account balance (% of GDP)	-3.1	-6.0	-4.2	-3.3	-2.8	-2.3	-1.6	-1.1
Net wage - nominal growth (%)	5.7	10.9	10.6	6.4	6.1	6.0	5.8	5.7
Unemployment rate (average)	15.4	14.4	14.0	13.1	11.9	10.5	9.4	8.4
Employment rate (average)	47.2	47.3	47.7	48.6	49.9	51.3	52.6	53.9

Source: SSO, NBRNM and projections of Ministry of Finance (*)

With the economic activity intensifying, active employment measures and programmes and job creation support to domestic and foreign enterprises are expected to further improve the conditions on the labour market developments in the coming period. Thereby, implementation of Human Capital Development Strategy 2030, focusing on three key and interlinked sectors - education, health and social protection, is expected to contribute to more inclusive economic growth and development, as well as managing the challenges related to productivity, labour market inclusion and population aging. Amid more moderate growth of economic activity, number of employees is

expected to increase by 1.1% in 2023, while in the period 2024-2028, employment growth is expected to speed up, i.e. average annual increase of 3.2% is projected. Employment growth in this period is expected to also reflect on the labour supply, projected to increase by 1.9% annually on average. Such trends on the labour market will contribute for the average unemployment rate in 2028 to drop to 8.4% and the average employment rate to surge to 53.9%.

Average wage is expected to further increase in 2023, amid increased minimum wage, increased wages in certain departments in the public sector (education, health, state administration), as well as increased wage in the private sector, the growth thereby being projected at 10.6%. Over the medium term, nominal growth of average wage in the period 2024 - 2028 is expected to be 6.0% annually.

Inflation rate in 2023 is expected to drop to 8.9%, amid stabilisation and reduction of food and energy prices on the global markets, with the core inflation declining at slower pace and contributing significantly to the headline inflation. In addition, Government's measures aimed at reduction of prices of basic food products provide for reduced food prices and, should the anticipated level of prices be kept by the end of 2023, it can be expected for them to additionally drop, as will the headline inflation. In 2024, inflationary pressures are expected to ease and inflation rate is expected to slow down to 2.5%, stabilising to 2% in the coming medium-term period.

BOP current account deficit is forecasted to decline in the course of 2023 as a result of the lower trade deficit, however, it is still foreseen to be higher, accounting for 4.2% of GDP. Over the medium term, current account deficit is envisaged to improve, i.e. reduce to 1.1% in 2028, as a result of the projected narrowing of the trade deficit. Amid normalisation of the trends in both the global and the domestic economy, FDI inflow is expected to continue in the period 2024 - 2028, accounting for 3.7% of GDP in average, having a positive contribution to keeping the reserve assets at an adequate level. Positive trends at FDI inflow are forecasted to continue in the coming period.

Baseline macroeconomic scenario is accompanied by risks, mainly assessed as downside ones, in relation to the projected economic growth. Risks are primarily related to the geopolitical tensions, the war conflict in Ukraine, the growth prospects of the major trading partners, the still present risks as regards ensuring energy stability in Europe in the coming period, the effects from tightening the monetary policy, as well as the evident uncertainty in terms of the banking system. Considering the domestic factors, weaker performance of projected capital investments can limit the economic growth. Easing of political tensions and implementing structural reforms, as well as the start of the EU accession negotiation, will have positive impact on these processes, boost the investors' confidence and have positive effects on the economic activity.

2. Budget of the Republic of North Macedonia

2.1 Revenue Performance and Expenditure Execution in 2022 and 2021

In 2022, total revenues of the Budget of the Republic of North Macedonia³ were collected in the amount of Denar 243.1 billion or approximately 99% of the revenues projected in the 2022 Budget, i.e. they were higher by 11.5% compared to the ones collected previous year. Denar 142.6 billion out of this amount was tax revenues, being higher by 13.4% compared to last year. VAT revenues were collected in the amount of Denar 64.8 billion, accounting for the most in the tax revenues – 45.4%. PIT revenues were collected in the amount of Denar 23.9 billion, with profit tax revenues and excise revenues collected in the amount of Denar 15.8 billion and Denar 25.5 billion respectively. PIT revenues, profit tax revenues, VAT revenues, import duties and other tax revenues registered higher performance compared to the reference period last year, while revenues collected in the basis of excises declined by 0.3% in relation to 2021. Revenues on the basis of social contributions were collected in the amount of Denar 77.6 billion, being higher by 9.9% compared to 2021.

In 2022, non-tax revenues were collected in the amount of Denar 17.2 billion. Capital revenues were collected in the amount of Denar 2.3 billion, while revenues generated on the basis of foreign donations amounted to Denar 3.4 billion.

In 2022, total expenditures of the Budget of Republic of North Macedonia were executed in the amount of Denar 278.6 billion, or around 96.6% of the 2022 Budget, i.e. execution was higher by 8.4% in relation to the previous year.

³ Pursuant to the 2022 Supplementary Budget ("Official Gazette", no. 164/22), Decision on Reallocation of Funds between Central Government Budget Users and the Funds ("Official Gazette", no. 232/22) and Decision on Reallocation of Funds between Central Government Budget Users and the Funds ("Official Gazette", no. 272/22).

Current expenditures were executed in the amount of Denar 249.9 billion. During this period, Denar 32.2 billion was paid for wages and allowances to the employees at the budget users, while expenditures related to goods and services were executed in the amount of Denar 21 billion.

Transfers-related expenditures accounted for the most in the current expenditures, amounting to Denar 187.7 billion in this period. As regards regular payment of pensions, Denar 67.6 billion was allocated therefore. As regards financing health services and benefits, Denar 38.2 billion was paid, and Denar 2.7 billion was spent for payment of unemployment benefits through the Employment Agency. Denar 12.5 billion was spent as social assistance for vulnerable categories. Denar 20.5 billion was transferred from the Budget of the Republic of North Macedonia to the municipalities, as block grants for financing the transferred competences, as well as earmarked grants for financing the operating costs of the local public institutions. In addition, Denar 2.9 billion was transferred on the basis of VAT revenues.

Denar 9.1 billion was allocated for regular servicing of liabilities on the basis of interest, as per the repayment schedules on domestic and foreign borrowing. Denar 5.7 billion out of this amount was allocated for payment of interest on foreign borrowing. For the purpose of regular servicing of liabilities on the basis of repayment of principal, funds in the amount of Denar 11.4 billion were spent.

AD ESM was transferred Denar 14 billion as energy crisis liquidity support.

In 2022, capital expenditures were executed in the amount of Denar 28.6 billion, being higher by Denar 5.2 billion or by 22.3% compared to last year. Under the Law on 2022 Budget Execution, new mechanism was put into place, being aimed at improving the execution of capital expenditures, by which budget users are obliged to execute 15% of capital expenditures as of the first quarter inclusive, 40% of capital expenditures as of the second quarter inclusive and 65% of the capital expenditures as of the third quarter inclusive. As per the mechanism, on the basis of execution of capital expenditures as of Q3 2022 inclusive, Denar 1.8 billion was reallocated to item 414 - Capital Expenditures Reserves. Should the budget users spend the funds up to the prescribed limit in the next quarter, i.e. should they execute 70% of the capital expenditures by 15 November inclusive, Ministry of Finance, ex officio, returns the withheld funds to the appropriate sub-programme and item they were reallocated from. Should the budget users fail to spend the funds up to the prescribed limit in the next quarter, 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 would be encouraged to execute the capital expenditures as projected and, at the expense of the budget users having underperformed, their resources would be reallocated to the budget users having executed the capital expenditures in line with the approved Budget.

During this period, state budget deficit amounted to Denar 35.5 billion or 4.5% compared to the GDP projected in 2022 and primary budget accounted for 3.3% of GDP. (Table 2)

Table 2. 2022 Budget Execution

	Budget reallocation II	Realization 2022	Realization 2021	Realization 2022/Budget reallocation 2022 (%)	Realization 2022/2021 (%)
	BO %				
TOTAL REVENUES	245,758	243,085	218,021	98.9%	11.5%
Taxes and Contributions	221,770	220,186	196,317	99.3%	12.2%
Taxes	143,173	142,567	125,690	99.6%	13.4%
Personal Income Tax	22,637	23,852	20,552	105.4%	16.1%
Profit Tax	13,390	15,776	10,871	117.8%	45.1%
VAT (net)	68,442	64,764	58,194	94.6%	11.3%
Excises	26,910	25,483	25,548	94.7%	-0.3%
Import Duties	8,917	9,973	8,480	111.8%	17.6%
Other Taxes	2,877	2,719	2,045	94.5%	33.0%
Contributions	78,597	77,619	70,627	98.8%	9.9%
Non Tax Revenues	17,043	17,189	13,882	100.9%	23.8%
Capital Revenues	2,180	2,273	1,928	104.3%	17.9%
Foreign Donations	4,765	3,437	5,894	72.1%	-41.7%
TOTAL EXPENDITURES	288,493	278,596	256,906	96.6%	8.4%
Current Expenditures	255,808	249,959	233,498	97.7%	7.0%
Wages and Allowances	33,234	32,159	31,010	98.0%	3.7%
Goods and Services	22,844	21,001	20,110	89.5%	4.4%
Transfers to LGUs	23,441	23,365	21,218	99.7%	10.1%
Subsidies and transfers	30,170	30,581	28,292	98.9%	8.1%
Social Transfers	135,898	133,713	123,782	98.4%	8.0%
Interest	10,221	9,140	9,086	97.5%	0.6%
Capital Expenditures	32,685	28,637	23,408	87.9%	22.3%
BUDGET BALANCE	-42,736	-35,511	-38,885	83.1%	-8.7%
BUDGET BALANCE (% of GDP)	-5.1%	-4.47%	-5.4%		
Primary budget balance (% of GDP)	-3.9	-3.3	-4.1		
FINANCING	42,736	35,511	38,885		
Inflow	54,513	46,869	81,480		
Domestic	26,630	14,681	23,149		
Foreign	66,024	25,801	61,798		
Deposits	-38,141	6,387	-3,467		
Outflow	11,777	11,358	42,595		
Domestic	5,542	5,571	6,123		
Foreign	6,235	5,787	36,472		

2.2. 2023 Budget of the Republic of North Macedonia

2023 Budget of the Republic of North Macedonia was prepared in the second half of 2022, amid electricity supply crisis.

2023 Budget has four main goals:

- managing the consequences from the energy crisis and the increased inflation;
- continuing the fiscal consolidation and strengthening the fiscal sustainability;
- creating conducive environment for economic recovery and sustainable economic growth, and
- uninterrupted financing of the basic functions of the state and supporting the judiciary reforms and the Euro-Atlantic integration (EU and NATO).

2023 Budget was based on the strong commitment to maintaining macroeconomic stability and further fiscal consolidation, to the end of creating more conducive environment for accelerated and sustainable economic development.

Even amid energy crisis in Europe, support to the economy continues through investments in infrastructure projects, redesigning the public finance structure by increasing the share of capital expenditures, strengthening the social safety network (including minimum wage and pensions) for the vulnerable groups of citizens and companies, as well as strengthening the process of planning, executing and accountability as regards public finances.

Total revenues of the 2023 Budget of the Republic of North Macedonia are projected in the amount of Denar 282.1 billion, being higher by 14.8% in relation to 2022, while expenditures are projected in the amount of Denar 324.8 billion, being higher by 12.6% in relation to 2022.

Such projected revenues and expenditures result in a budget deficit of 4.6% of the projected GDP or Denar 42.7 million in absolute terms.

2.3 Revenue Performance and Expenditure Execution in the period January – March 2023

In the period January - March 2023, total revenues of the Budget of the Republic of North Macedonia⁴ (Table 3) were collected in the amount of Denar 66,274 million or approximately 23.5% of the revenues projected in the 2023 Budget, i.e. they were higher by 16.1% compared to the revenues collected in the same period last year. Denar 35,897 million out of this amount was tax revenues, being higher by 2.5% compared to last year. VAT revenues were collected in the amount of Denar 16,482 million, accounting for the most in the tax revenues – 45.9%. PIT revenues were collected in the amount of Denar 5,914 million, with profit tax revenues and excise revenues collected in the amount of Denar 4,571 million and Denar 5,918 million respectively. All types of tax revenues experienced growth, except VAT revenues, which experienced lower performance compared to the analysed period last year. Revenues on the basis of social contributions were collected in the amount of Denar 20,756 million, being by Denar 3,455 million or 20% higher in relation to the respective period in 2022. Denar 14,030 million was collected on the basis of pension insurance contributions, while revenues collected on the basis of employment contributions and health insurance contributions amounted to Denar 860 million and Denar 5,866 million respectively.

Non-tax revenues were collected in the amount of Denar 4,168 million in the period January - March 2023. Non-tax revenues of budget users on their own accounts, collected in the amount of Denar 2,096 million, accounted for the most therein. Capital revenues were collected in the amount of Denar 193 million, while budget users generated Denar 5,260 million on the basis of donations from international multilateral and bilateral cooperation.

In the period January – March 2023, total expenditures of the Budget of the Republic of North Macedonia were executed in the amount of Denar 69,871 million, or around 21.5% of the expenditures projected in the 2023 Budget, i.e. execution was higher by 9.6% in relation to the same period last year. During this period, all liabilities of the budget users, rights citizens are entitled to under the law and due liabilities towards domestic and foreign creditors, were settled seamlessly and in a timely manner.

Current expenditures were executed in the amount of Denar 64,562 million. Over the period considered, Denar 8,192 million was paid for wages and allowances to the employees with the budget users, while expenditures related to goods and services were executed in the amount of Denar 4,450 million.

Transfers-related expenditures accounted for the most in the current expenditures, amounting to Denar 48,349 million in the respective period. Government liabilities on the basis of payments related to exercising the rights to guaranteed social protection of the citizens (pecuniary allowances to vulnerable categories of citizens, as well as child allowance and parenting payments), amounting to Denar 3,840 million, were settled on regular basis. As regards regular payment of pensions, Denar 18,170 million was allocated therefore. With respect to financing health services and benefits, Denar 9,358 million was paid, while Denar 429 million was allocated for payment of unemployment benefits through the Employment Agency. Denar 5,661 million was transferred from the Budget of the Republic of North Macedonia to the municipalities as block grants for financing the transferred competences, as well as earmarked grants for financing the operating costs of the local public institutions. In addition, Denar 839 million was transferred on the basis of VAT revenues. During the analyzed period, agricultural subsidies were paid on continuous basis and in a timely manner, aimed at improving the quality and the competitiveness of the sector.

Denar 3,571 million was allocated for regular servicing of liabilities on the basis of interest, as per the repayment schedules on domestic and foreign borrowing. Denar 2,657 million out of this amount was allocated for

⁴ Pursuant to the 2023 Budget of the Republic of North Macedonia ("Official Gazette", no. 282/22).

payment of interest on foreign borrowing. For the purpose of regular servicing of liabilities on the basis of repayment of principal, funds in the amount of Denar 6,050 million were spent.

In the period January - March 2023, capital expenditures were executed in the amount of Denar 5,309 million, i.e. execution was higher by Denar 393 million or by 8% in relation to last year.

During this period, state budget deficit amounted to Denar 3,597 million or 0.4% compared to the GDP projected in 2023.

Table 3. 2023 Budget of the Republic of North Macedonia and its Execution in the period January – March 2023

	Budget 2023	Realization K1 2023	Realization K1 2022	Realization K1 2023/Budget 2023 (%)	Realization K1 2023/Realization K1 2022 (%)
	BO %				
TOTAL REVENUES	282,051	66,274	57,106	23.5%	16.1%
Taxes and Contributions	250,688	56,653	52,314	22.6%	8.3%
Taxes	162,600	35,897	35,013	22.1%	2.5%
Personal Income Tax	26,500	5,914	5,059	22.3%	16.9%
Profit Tax	14,700	4,571	3,869	31.1%	18.1%
VAT (net)	78,500	16,482	17,135	21.0%	-3.8%
Excises	29,200	5,918	5,718	20.3%	3.5%
Import Duties	10,700	2,505	2,461	23.4%	1.8%
Other Taxes	3,000	507	771	16.9%	-34.2%
Contributions	88,088	20,756	17,301	23.6%	20.0%
Non Tax Revenues	19,894	4,168	3,681	21.0%	13.2%
Capital Revenues	2,800	193	281	6.9%	-31.3%
Foreign Donations	8,669	5,260	830	60.7%	533.7%
TOTAL EXPENDITURES	324,810	69,871	63,777	21.5%	9.6%
Current Expenditures	276,059	64,562	58,861	23.4%	9.7%
Wages and Allowances	34,880	8,192	7,784	23.5%	5.2%
Goods and Services	23,631	4,450	4,094	18.8%	8.7%
Transfers to LGUs	26,687	6,500	5,453	24.4%	19.2%
Subsidies and transfers	31,548	6,309	7,637	20.0%	-17.4%
Social Transfers	146,390	35,540	31,403	24.3%	13.2%
Interest	12,923	3,571	2,490	27.6%	43.4%
Capital Expenditures	48,751	5,309	4,916	10.9%	8.0%
BUDGET BALANCE	-42,759	-3,597	-6,671	8.4%	-46.1%
BUDGET BALANCE (% of GDP)	-4.6%	-0.4%	-0.8%		
Primary budget balance (% of GDP)	-3.2	0.0	-0.5		
FINANCING	42,759	3,597	6,671		
Inflow	94,876	9,647	7,716		
Domestic	33,626	13,187	2,259		
Foreign	66,876	31,282	942		
Deposits	-5,626	-34,822	4,515		
Outflow	52,117	6,050	1,045		
Domestic	15,611	4,980	0		
Foreign	36,506	1,070	1,045		

2.4 Medium-Term Budget Framework

Starting this year, Ministry of Finance has announced, for the first time, on its website, a plan with set time framework for the preparation of the Fiscal Strategy. In addition, in accordance with the new legally prescribed deadlines, Ministry of Finance has submitted a circular letter on the fiscal strategy, including guidelines for

preparation of the fiscal strategy, to the budget users as per the plan with set time framework. Fiscal projections are prepared on the basis of the existing legislation and the existing obligations (baseline scenario) and a proposal for new projects and new liabilities (new initiatives).

Medium-Term Fiscal Strategy is in line with the medium-term fiscal goals and strategic priorities of the Government of the Republic of North Macedonia and it provides for monitoring the dynamics of revenues and expenditures in relation to the fiscal goals.

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.

In addition to the commitment to fiscal consolidation and budget savings, economy continues to be supported by investing in infrastructure projects, redesigning the public finance structure by increased share of capital expenditures, as well as strengthening both the transparency and the accountability.

Improvement of the public financial management and strengthening the medium-term budget planning in the next 5 years is one of the top priorities of the Government of the Republic of North Macedonia as part of the EU accession process.

This Fiscal Strategy is prepared in line with the timeframe set under the provisions in the new OBL, incorporating more information with qualitative and quantitative data through a sector expenditure analysis.

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections.

Over the medium term, amid easing of the unfavorable effects of the overlapping crises, it is expected for the global trends to get back to normal, inflationary pressures to reduce and economic activity at our major trading partners to strengthen, thus contributing to increased external demand and more favourable investment climate.

In the past period, domestic economy showed resilience to the subsequent shocks induced by global factors. Timely response by the fiscal policy has continuously, and to a great extent, limited the effects of these shocks. From the very beginning of the crisis, and for the purpose of continuing the measures designed for support and recovery during and after the pandemic, the Government responded timely to the end of slowing down the spillover effect of the imported inflation, thus ensuring full and stable supply of electricity and avoiding the price shocks. The measures were targeted at the vulnerable categories of citizens affected by the crisis, with the objective being to protect the living standard, maintain companies' liquidity and support investments in energy efficiency and renewable energy sources, all to the end of ensuring energy stability in the long term.

Ongoing fiscal consolidation supports the economy through investments in infrastructure projects, redesigning the public finance structure by increased share of capital expenditures, as well as strengthening the process of planning, executing and reporting as regards the public finance.

Share of capital expenditures accounting for more than 5% of GDP on annual basis is of key importance for generating economic growth and development.

Medium-term fiscal strategy includes limits on budget expenditures, limits by budget user, as well as medium-term projections for the local government and the public enterprises and the state-owned joint stock companies.

In order for the fiscal policy to be sustainable over the medium term, fiscal projections envisage a framework for adhering to the fiscal rules, designed so as to be harmonised and consistent with the EU fiscal rules.

Numerical fiscal rules are introduced for the first time under the new OBL.

The Budget and the Fiscal Strategy should be in conformity with the fiscal rules pertaining to both the deficit and the total general government debt.

1. General government deficit for the respective may not exceed 3% of the nominal gross domestic product (GDP).
2. Total general government debt may not exceed 60% of the nominal GDP, while the guaranteed public debt may not exceed 15% of the nominal GDP.
3. Exception from the stipulated fiscal rules is prescribed in case of occurrence of one of the following extenuating circumstance:

1. natural disasters and external shocks jeopardizing the national security or the lives and the health of the people;

2. state of emergency and/or crisis situation;

3. abrupt financial or economic shocks, resulting in a negative or a very low annual real GDP growth close to zero, the overcoming of which requires a significant support from the fiscal policy.

4. Exceptions from the fiscal rules are allowed in cases of implementation of investment projects with a positive

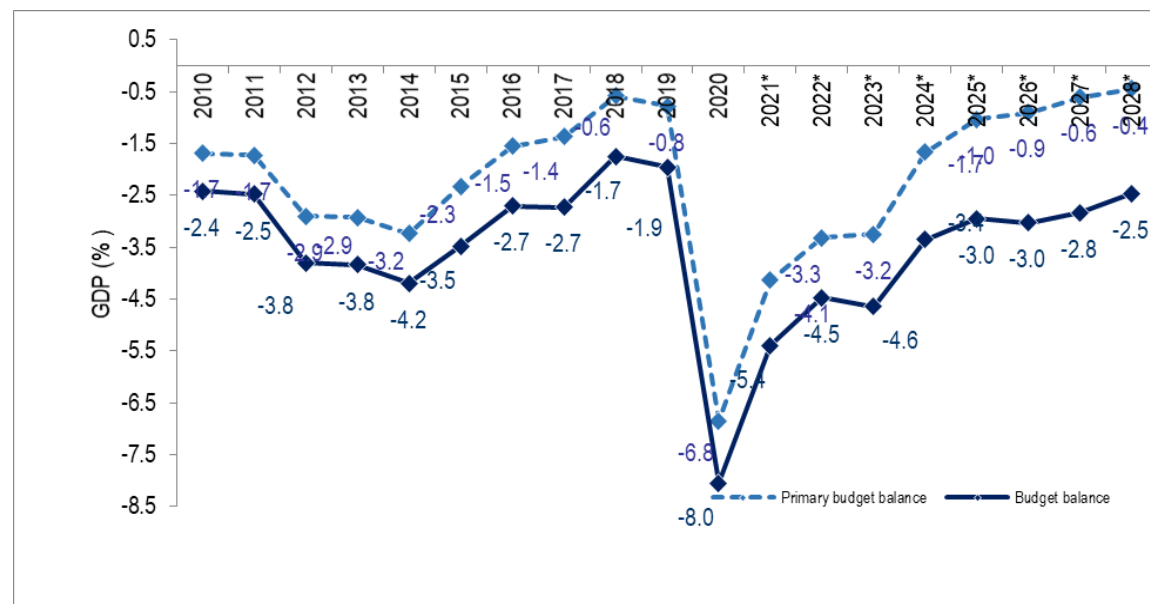
impact on GDP. The respective exceptions should not exceed 0.5% of GDP annually and on cumulative basis over a period of five years.

5. The Government is obliged, as regards any exemption, to clearly explain the following to the Parliament when submitting the immediate subsequent Budget or Supplementary Budget, or the immediate subsequent Fiscal Strategy:

1. reasons for the exemptions from the fiscal rules;
2. corrective measures it undertakes and plans to undertake, all to the end of re-establishing compliance with the fiscal rules within a period not longer than five years from the exemption.

Over the medium-term, fiscal policy envisages gradual fiscal consolidation, whereby annual level of budget deficit, as per the new fiscal projections, is consistent with the projections in the previous Fiscal Strategy. Thereby, budget deficit is reduced as a percentage share of GDP, as follows: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026, 2.8% in 2027 and 2.5% in 2028.

Chart 10. Total and Primary Budget Deficit (% of GDP)



2.4.1 Revenues

Total revenues of the Budget of the Republic of North Macedonia (Central Budget and Funds) for the period 2024-2028 are projected to around 31.6% of GDP. Revenue projections in the coming medium-term period are based on revenues generated in the previous years and the effects from the planned tax reforms.

In fact, upon two public debates held with all stakeholders, the Government adopted the 2021-2025 Tax System Reform Strategy in the course of December 2020, which is harmonised with all remaining strategic documents of the Government and the Ministry of Finance. In line therewith, the working group in charge of the Strategy implementation also adopted the 2021 Action Plan, comprising the main goals, priorities and activities related to tax policy for the next period. Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on regular basis. Main priorities of the Strategy are the following:

- greater fairness of taxation, in order to ensure that everyone meets its social obligation and pays its fair share of tax,
- increased efficiency and productivity of the tax system for the purpose of improved revenue collection, via more efficient fight against illicit activities and tax evasion, and a strengthened institutional capacity, as well as reduction of the tax arrears,
- increased tax transparency, including an improvement of the exchange of information between tax authorities and other entities, to be, in particular, based on e-services, which will result in enhanced fiscal literacy and increased voluntary compliance,

- improved quality of services rendered by tax system institutions, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitalised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax audit,
- introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction, i.e. discourage them to pollute the environment. Effects of this priority are also expected to reflect on the budget revenues, as well as the environment.

Slight easing of tax policy, at the same adjusting certain tax rates, is expected to have a multiple effect, i.e. it is envisaged to provide for greater tax coverage, fair and streamlined administrative procedures, as well as support to the private sector, which would result in both reducing the tax evasion and increasing the tax base.

In order to mitigate the negative effects from the energy and price crisis, Law on Modifications and Amendments to the Value Added Tax Law ("Official Gazette of the Republic of North Macedonia", no. 57/2022) was adopted in 2022, envisaging the following:

- regulating the place of supply of natural gas and electricity, supply of heat energy or cooling energy, as well as stipulating VAT exemption when importing natural gas and electricity through the distribution system.
- stipulating the possibility for the Government of the Republic of North Macedonia to exempt supply and import with right to tax credit deduction on foodstuff for human consumption, for a specific period of time under certain circumstances.
- stipulating the possibility for the Government of the Republic of North Macedonia to apply preferential tax rate of 10% on supply and import of energy products, for a specific period of time under certain circumstances.
- proceeding with the application of preferential tax rate of 5% on supply and import of electricity to households by 31st December 2022.
- stipulating the application of preferential tax rate of 10% on supply and import of electricity to households to be in force from 1st January 2023 to 30th June 2023.

In addition, modifications and amendments to the Law on Excises ("Official Gazette of the Republic of North Macedonia", no. 57/2022 dated 12th March 2023) were adopted as an additional anti-crisis measure in the field of taxation, stipulating the possibility for excise rate cuts on unleaded gasoline, gas oil as engine fuel and gas oil as heating fuel, depending on the increased price of energy products on global stock markets, in case of natural and other disasters in the Republic of North Macedonia, amid exceptional circumstances of natural and other disasters or epidemics, armed conflict, state of emergency or crisis situation, or in case of major disruptions in the supply chain of energy products in the country, in which cases the Government can closely regulate the type of the fuels, the time period of application of the reduced rate and the manner of assessing the excise duties.

In March 2022, the Government adopted Decision on Determining the Type of Fuels, the Time Period of Application of the Reduced Excise Rate and the Manner of Assessing the Excise Duties ("Official Gazette of the Republic of North Macedonia", no. 58/2022 dated 12th March 2022).

This anti-crisis measure was of temporary nature, i.e. it was in force by 31st May 2022.

In the course of 2022, committed to achieving the objectives and the priorities identified in the 2021 - 2025 Tax System Reform Strategy, Ministry of Finance commenced ambitious tax policy reforms aimed at improved quality of the tax system and increased mobilisation of revenues.

Tax Reform Concept envisages a phased approach in designing and implementing the reforms within various tax instruments, starting with the tax policy reforms in the field of corporate income tax, personal income tax and value added tax.

Reform package in these three tax areas is based on comprehensive analyses of the national legislation and the tax revenue indicators, as well as the comparative analyses of the tax practice in the EU Member States and the other Western Balkan countries. Moreover, it incorporates findings and recommendations of international organisations, such as IMF, World Bank, OECD and EU, pointing out to the need to ensure increased vertical and horizontal fairness of the tax system and broadening of the tax base by revising the tax exemptions.

In particular, proposed reform package is aimed at abolishing the non-productive preferential tax regimes (so-called tax expenditures) which disrupt the neutrality of the tax system by favouring same or similar categories of taxpayers or activities, which have an adverse effect on the fair distribution of the tax burden and lead to increased inequality in the society, disrupt the robustness of the tax system by creating substantial room for tax arbitrage and/or avoidance and evasion and can cause inefficiency in the real economy.

The reform package underwent extensive public consultations with the academia, the business sector and the civil society, before it was finalised and respective modifications and amendments to the laws were prepared.

At its 118th session held on 9th December 2022, Government of the Republic of North Macedonia adopted the Draft Law on Modifications and Amendments to the Corporate Income Tax Law, the draft Law on Modifications and Amendments to the Personal Income Tax Law and the draft Law on Modifications and Amendments to the Value Added Tax Law, as part of the Tax Reform Concept.

Personal Income Tax Law

Under the adopted draft Law on Modifications and Amendments to the Personal Income Tax Law ("Official Gazette of the Republic of North Macedonia", no. 274 dated 20th December 2022), certain tax exemptions are eliminated and the tax base for certain benefits, considered as employee's income, is defined. Moreover, modifications and amendments to the Personal Income Tax Law envisage introducing taxation of capital gains generated on the basis of sale of securities and shares issued by investment funds acquired after 1st January 2023, also closely regulating the tax base for capital gains generated on the same basis in case of inheritance or in case when their purchase price cannot be determined. The Law also regulates more closely the manner of PIT assessing and taxation of capital gains. Additionally, under the respective modifications and amendments, PIT exemption on capital gains generated on the basis of sale of real estate and sale of securities is more closely regulated.

Furthermore, modifications and amendments to the PIT Law also govern the PIT exemption on interest on time deposits, and it will apply from the day the Republic of North Macedonia joins the European Union, i.e. interest on time deposits will be PIT exempt until Republic of North Macedonia accession in the European Union.

Draft Law on Modifications and Amendments to the Corporate Income Tax Law

Under the respective draft Law, certain employees' benefits (voluntary life insurance of employees) is envisaged to be subject to CIT, and such benefits are envisaged to be deemed as unrecognised expenditures for tax purposes. In addition, amendments are envisaged under the draft Law regarding the mandatory submission of transfer price report, i.e. it will be submitted upon request by the tax authority. To the end of greater tax discipline, the draft Law envisages increased fines for the entities failing to use the funds committed to making investments from the profit generated in the previous year and having their tax base deducted by the respective amount. Under the draft legal modifications and amendments, preferential tax regime (CIT exemption) for small-sized and micro entities with a total annual profit of Denar 3 million is proposed to be abolished.

The draft law also envisages abolishment of the voucher system as regards donations to sports entities.

As of March 2023 inclusive, the draft CIT Law was not adopted by the Parliament of the Republic of North Macedonia.

Draft Law on Modifications and Amendments to the Value Added Tax Law

Under the draft modifications and amendments to the VAT Law, the respective Law is further harmonised with the EU Directives as regards defining the VAT treatment of vouchers, defining the place of supply of services and introducing the category of a tax representative.

Proposed modifications and amendments to the VAT Law also envisage increase of the VAT rate (from 5% to 10%) on foodstuff for human consumption other than basic foodstuff for human consumption. Other modifications and amendments to the VAT Law pertain to issuance of a VAT number and registration, regulating the special type of tax base and simplified manner of issuance of e-invoice.

As of March 2023 inclusive, the draft VAT Law was not adopted by the Parliament of the Republic of North Macedonia.

Draft Law on Modifications and Amendments to the Law on Public Revenue Office

Proposed modifications and amendments to the PRO Law prescribe provisions on digitalisation and exchange of acts and information for tax purposes between the institutions, as well as the tax authority and the taxpayer.

Moreover, the draft Law on Modifications and Amendments to the PRO Law prescribes/introduces an integrated tax information system (ITIS) and a working body in charge of its implementation, strengthens the provisions on exchange of data between the institutions and increased interoperability, also envisaging greater independence of the PRO Director in terms of the organisational setup of this tax authority. The Law envisages for the status of administrative servants to change to tax officers and new/enhanced requirements as regards employment at the tax authority, as well as certain wage and allowance increases for the tax officers as per the labour market conditions.

Under the modifications and amendments to the Law on Partial VAT Refund to Individuals, which entered into force in March 2023 ("Official Gazette of the Republic of North Macedonia", no. 63), the amount of partial VAT refund to individuals has been increased and the model of declaring the highest amount of tax subject to refund has been changed, i.e. instead of Denar 12,000 tax base for a single quarter, the amount of VAT subject to refund to individuals has increased to Denar 2,100 per quarter. Moreover, the measure for partial VAT refund to individuals of 20% for Macedonian products and services and 10% for other goods and service continued to apply during this period, providing for additional income to each family, strengthening the purchasing power and having positive effect on increased consumption and VAT collection, as well as contributing to reduced tax evasion and informal economy.

E-Fiscalisation and E-Invoice

In the course of 2022, Ministry of Finance informed the Government about the need to prepare and implement the E-Invoice Project. In particular, to the end of increased efficiency and effectiveness and digitalisation of the tax processes, as well as reducing the informal economy by regularly monitoring the supply among the taxpayers and increased VAT control, both Ministry of Finance and PRO prepared draft E-Invoice Project. The Project is planned to become operational starting 2024.

Tax Expenditures Report

Tax expenditures are indirect expenditures incurred on the basis of tax and customs legal provisions, resulting in reduction or delay of inflows for the purpose for achieving certain economic or social goal. They can take the form of exceptions, exemptions, deductions, preferential tax rates, etc.

Preparation and submission of Report on the Impact of Tax Expenditures on the Inflows for 2025 is an obligation stipulated under the Organic Budget Law. The Report is to be submitted to the Parliament of the Republic of North Macedonia annually, as an accompanying document to the Annual Financial Statement, presenting the State Budget execution for the previous budget year.

The table outlines the total tax expenditures on the basis of PIT, CIT, VAT, excise duties and customs duties, calculated and assessed for the period 2022 - 2028.

Table 4. Tax expenditures by type of tax (Denar million)

Type of tax	2022	2023	2024	2025	2026	2027	2028
CIT	3,577	3,992	4,252	4,553	4,902	5,271	5,658
PIT	553	617	657	704	758	815	875
VAT	28,005	31,258	33,293	35,647	38,387	41,274	44,306
Excise Duties	326	364	387	415	447	480	516
Customs Duties	1,113	1,242	1,323	1,416	1,525	1,640	1,760
Total	33,573	37,473	39,912	42,735	46,019	49,481	53,115

CIT

a) Reinvested Profit

The tax base is deducted by the amount of the investments made from the profit generated in the previous year for development purposes, i.e. investments in tangible assets and intangible assets (reinvested profit). Tax expenditures on the basis of this particular exemption amounted to Denar 1,729 million in 2021.

b) Technological Industrial Development Zones

Pursuant to the CIT Law ("Official Gazette of the Republic of North Macedonia", nos. 112/14...151/21), taxpayer, user of technological industrial development zones, is eligible for CIT exemption as part of state aid under both the terms and conditions and the procedure stipulated in the Law on Technological Industrial Development Zones ("Official Gazette of the Republic of North Macedonia", nos. 14/07...13/23). Tax expenditures on the basis of this particular exemption amounted to Denar 525.5 million in 2021.

c) Donations to Sports Entities

Pursuant to the CIT Law ("Official Gazette of the Republic of North Macedonia", nos. 14/07...13/23), taxpayer, having donated funds to sports entities is deducted the assessed corporate income tax by the amount of donated funds, however, up to 50% at the most of the assessed tax. Tax expenditures on the basis of this particular exemption amounted to Denar 353.1 million in 2021.

d) Annual Tax on Total Income

Pursuant to the CIT Law, small-sized and micro companies are exempt from the obligation to pay annual tax on total income, provided that the total income generated in the year for which the tax from any source is assessed does not exceed Denar 3,000,000 annually. Tax expenditures on the basis of this particular exemption amounted to Denar 354 million in 2021.

e) Companies Hiring Disabled Persons

Pursuant to the Law on Employment of Disabled Persons ("Official Gazette of the Republic of North Macedonia", nos. 44/00...103/21), companies hiring disabled persons are CIT exempt. Tax expenditures on the basis of this particular exemption amounted to Denar 284 million in 2021.

f) Fiscal Equipment

Taxpayers obliged to introduce and use fiscal equipment pursuant to the Law on Registration of Cash Payments ("Official Gazette of the Republic of North Macedonia", nos. 31/01...247/22) are deducted the assessed CIT when fiscal equipment, up to ten fiscal devices, is introduced and used. Tax expenditures on the basis of this particular exemption amounted to Denar 5.2 million in 2021.

PIT

a) Companies Hiring Disabled Persons

Pursuant to the Law on Employment of Disabled Persons, employees with the company hiring disabled persons, other than disabled persons and occupationally disabled employees, are PIT exempt as are the disabled persons. Tax expenditures on the basis of this particular exemption amounted to Denar 85.3 million in 2021.

b) Technological Industrial Development Zones

Wages of employees at a technological industrial development zone are PIT exempt for a period of ten years from the day the company commences its business activity as part of state aid pursuant to the Law on Technological Industrial Development Zones. Estimated tax expenditures on the basis of the above-mentioned PIT exemptions amounted to Denar 260.8 million.

c) Capital Gains

PIT not payable on capital gains generated on the basis of sale of securities and shares issued by investment funds. This exemption has been abolished under the latest amendments to the PIT Law ("Official Gazette of the Republic of North Macedonia", nos. 241/18 ... 274/22), in force starting 1st January 2023. Estimated tax expenditures on the basis of this particular exemption amounted to Denar 155 million in 2021.

VAT

a) VAT exemptions in the country, with and without right to tax credit deduction, are regulated under Articles 23, 24, 24-a and 24-b;

b) VAT exemptions when importing are regulated under Articles 27, 27-a, 27-b and 27-c;

c) application of preferential tax rate of 5% is stipulated under Article 30.

The respective exemptions include the following: banking and financial transactions; insurance and reinsurance services; health services; supply of goods and services intended for implementation of a project financed by funds obtained on the basis of donation agreement, concluded between the Republic of North Macedonia and foreign donors; tax exemptions when importing, etc., as well as preferential tax rate on certain goods and services, such as: foodstuff for human consumption; drinking water and water for irrigation of agricultural land; publications; seeds and seedlings; fertilisers; agricultural mechanisation; pharmaceuticals; computers; solar thermal systems and components; medical equipment; transportation of persons and their accompanying luggage; computer software; etc.

Estimated tax expenditures on the basis of VAT exemptions on all of the respective bases are determined by applying VAT gap model developed by World Bank experts, whereby latest available data for 2019 were used. Estimated tax expenditures amounted to Denar 24,407 million in 2019.

Table 5. 2021-2028 Budget of the Republic of North Macedonia (Denar million)

	Final account 2021	Final account 2022	2023*	2024*	2025*	2026*	2027*	2028*
Total revenues	218,021	243,085	282,052	299,747	322,113	345,195	369,834	392,871
Tax revenues and contributions	196,317	220,186	250,689	269,385	289,953	311,457	334,672	357,749
Tax revenues	125,690	142,567	162,600	172,648	187,005	201,914	218,106	233,705
Contributions	70,627	77,619	88,089	96,737	102,948	109,543	116,566	124,044
Non-tax income	13,882	17,189	19,894	20,932	22,130	22,382	22,932	22,892
Capital income	1,928	2,273	2,800	3,530	3,530	3,530	3,730	3,730
Donations	5,894	3,437	8,669	5,900	6,500	7,826	8,500	8,500
Total expenses	256,906	278,597	324,811	331,437	351,964	378,140	402,998	423,888
Current expenses	233,498	249,960	276,060	283,505	299,394	320,252	339,781	355,171
Wages and allowances	31,010	32,159	34,880	37,778	41,492	44,335	46,513	48,121
Goods and services	20,110	21,001	23,631	23,401	23,500	25,100	25,954	27,455
Transfers to LGUs	21,218	23,365	26,687	28,710	28,765	30,165	32,608	35,001
Subsidies and transfers	30,635	32,536	32,987	25,975	27,877	31,136	33,973	36,173
Social transfers	121,439	131,758	144,951	151,667	158,388	166,387	174,580	183,021
Interest payments	9,086	9,140	12,923	15,973	19,372	23,127	26,152	25,399
Homemade	3,026	3,413	4,416	6,615	7,958	9,041	10,283	11,479
Foreign	6,060	5,727	8,507	9,358	11,414	14,086	15,869	13,920
Capital expenditure	23,408	28,637	48,751	47,932	52,570	57,888	63,217	68,717
Budget balance	-38,885	-35,512	-42,759	-31,690	-29,851	-32,945	-33,164	-31,017
Primary budget balance	-29,799	-26,372	-29,836	-15,717	-10,479	-9,818	-7,012	-5,618
Total revenues, % of GDP**	30.3	30.6	30.6	31.7	31.8	31.7	31.6	31.2
Total expenditure, % of GDP**	35.7	35.1	35.3	35.1	34.8	34.7	34.4	33.7
Budget balance, % of GDP**	-5.4	-4.5	-4.6	-3.4	-3.0	-3.0	-2.8	-2.5
Primary budget balance, % of GDP**	-4.1	-3.3	-3.2	-1.7	-1.0	-0.9	-0.6	-0.4

Source: Ministry of Finance, projections of Ministry of Finance (*)

2.4.2 Expenditures

The expenditure side of the RSM Budget in the coming period is entirely created in function of the realisation of strategic priorities, the acceleration of economic growth, the priority for the integration processes of the Republic of North Macedonia in the EU, and the obligations arising from NATO membership.

When creating the medium-term fiscal framework, the existence of quality medium-term budget planning is of great importance. In this direction, it should be taken into account that in the coming period, the medium-term fiscal projections are based on a medium-term basic scenario, which means that the determination of the fiscal projections results from the exercise of the competences of the budget users defined in the existing legislation, the existing obligations and tasks, which are the result of already approved multi-year obligations, contracts, and current

projects. Everything that is not covered by the basic scenario and requires the provision of additional funds, the new financing is shown through new initiatives.

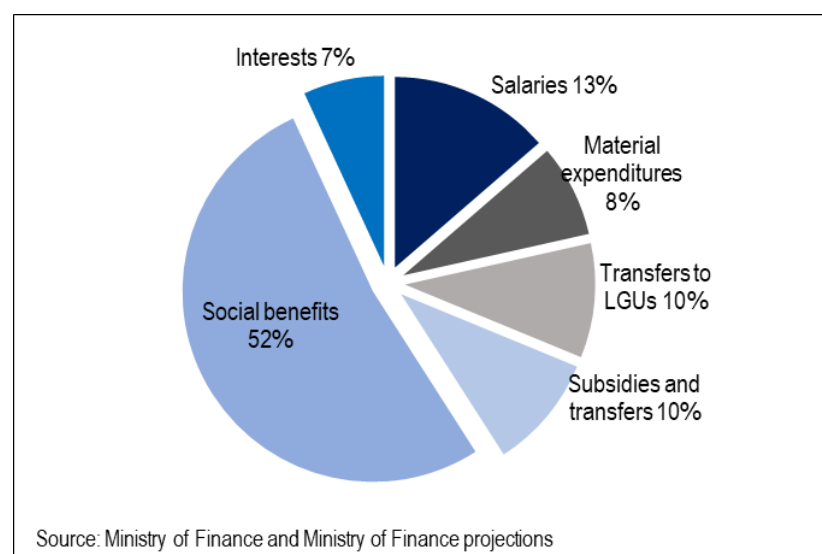
The average share of the total expenditures of the Budget of the Republic of North Macedonia in the period 2024-2028 is about 34.5% of the GDP. Budget expenditure projections for the next mid-term period are prepared on the basis of three key bases:

- compliance of the revenue projection with the planned economic activities;
- the projection of the total expenditures of the Budget ensures continuous fiscal consolidation; and
- planned expenditure amounts ensure regular and smooth execution of all legal obligations.

When projecting the amount and structure of current expenditures for the next period (Chart 11), which cover the regular payment of salaries to employees in the public sector, timely and regular payment of pensions and other social rights, payment of subsidies in agriculture, support of small and medium-sized enterprises, as well as subsidisation of innovative activities, the following assumptions are taken into account:

- increasing the efficiency of the operation of the public administration through optimisation and rationalisation of jobs, as well as harmonizing the salaries of the employees of the budget users with the minimum wage;
- payment of pension incomes, according to the pension calculation methodology, according to which pensions are adjusted according to the movement of the cost of living index in the amount of 50% and the increase in the average salary paid to all employees in the amount of 50%;
- more efficient use of resources for work through improved planning and implementation of operational expenses, reduction of non-essential expenses, as well as introduction of spending standards;
- better quality services in the decentralised responsibilities of the municipalities through redefining the criteria for the allocation of funds and more efficient and purposeful use of the grant funds;
- ensuring a greater positive impact on economic activity through more efficient and targeted use of funds for subsidies and transfers;
- rationalisation of expenditures for agricultural subsidies by redefining the agricultural policy for subsidizing agriculture with new criteria for granting subsidies (basic subsidy and additional support) in the direction of increasing food production, which will be based on the achieved yield, increasing productivity, greater competitiveness, as well as amortisation of price pressures of basic food products through the Intervention Fund. With the new model, priority is given to strategically important crops and products for the state and the creation of a system of sustainable and competitive agricultural production, as well as the encouragement of employment through agricultural businesses and through the support of plant and animal production, and
- reduction of poverty through proper targeting of the use of social assistance and greater participation in the labor market.

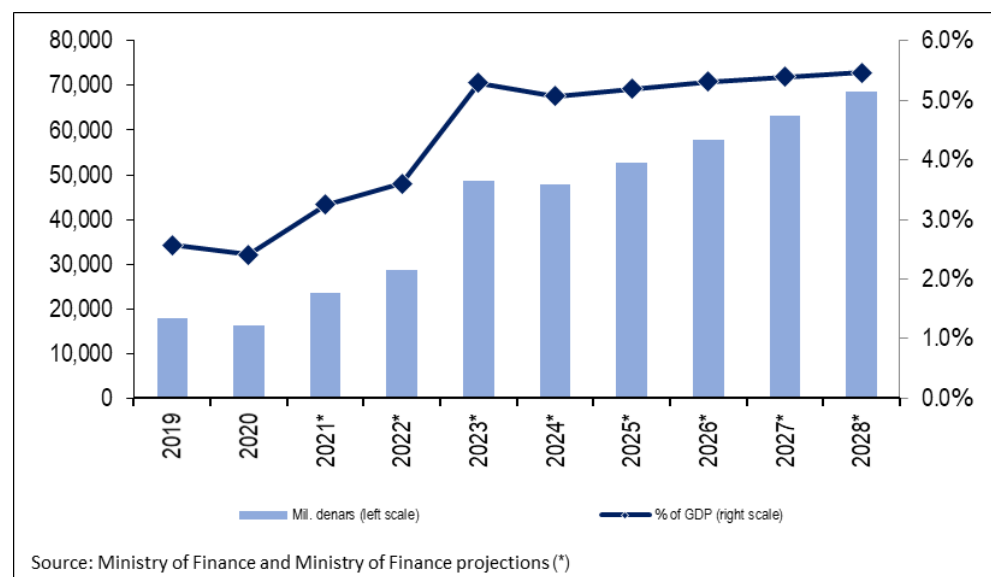
Chart 11. Average structure of current expenditures 2024-2028 (in %)



Medium-term fiscal projections have a strong development component, with a significant participation of capital expenditures with over 5% in GDP annually, and represent key elements of public finances. At the same time, in the medium term, the golden rule in public finances is respected: capital expenditures will be exceed the budget deficit, meaning borrowing will be solely for funding investment projects. The implementation of the budget will be managed according to the value for money principle, whereby care will be taken to ensure that citizens' money is used where it has the greatest effects on achieving the goals for a higher quality of life.

In the medium-term period, the focus of fiscal policy remains on ensuring a significant level of public investments, which are a prerequisite for improving economic prospects as well as a better life for citizens. In that direction, a significant amount of capital investments is planned (Chart 12) through the use of funds from the Budget, including funds secured by loans from international financial institutions and bilateral creditors . The planned amounts indicate the intensification of infrastructure projects, i.e., for investments in road and railway infrastructure, energy and communal infrastructure, as well as capital investments to improve conditions in the health, educational and social systems, agriculture, culture, sports, environmental protection, and the judiciary.

Chart 12. Capital expenditures of the Budget of RNM



In order to ensure sustainable and inclusive growth, in accordance with the priorities of the Programme of the Government of the Republic of North Macedonia, the Government will focus on the implementation of capital infrastructure projects in road and railway infrastructure, energy and communal infrastructure, as well as capital investments to improve conditions in the health, education and social system, agriculture, and environmental protection. More specifically, capital projects in the total amount of about 4 billion euros are planned, financed from budget funds, from donations (through IPA funds) and with funds from international financial institutions/bilateral creditors.

Significant investments with budget funds are planned in the field of road infrastructure, and in order to design and build a part of Corridor 8, the planning, design, construction, and use of Corridor 8, Section: Tetovo - Gostivar/highway expansion, construction of a new highway Trebenishta - Struga - Qafasan, construction of Gostivar-Bukojchani and Bukojchani-Kicevo sections, as well as Corridor 10 d, Prilep - Bitola section. In addition, a feasibility study for the construction of the Tetovo-Prizren road will be prepared through JPDP in the section of road infrastructure.

Regarding the road infrastructure, the eastern part of Corridor 8 through the Rankovce-Kriva Palanka section and through the section Kriva Palanka to the border with Bulgaria continues to be built with credit funds, as well as the western part of road Corridor 8 through the construction of the Kichevo-Bukojčani highway section and the section Kicevo-Ohrid. The construction of the Skopje-Blace highway section (border with Kosovo), the improvement of the road infrastructure of the municipalities in the Republic of North Macedonia through the Project for Connecting Local Roads, the Programme for National Roads, and the Project for Facilitating Trade and Transport in the Western Balkans are also financed with credit funds.

For the road infrastructure, notable capital projects subject to financing through IPA 2 Programmes in the period 2020-2025 include the construction of the road section Gradsko - Drenovo interchange as part of the road Corridor 10-d, rehabilitation of regional road A2, section Kumanovo - Stracin (phase 1), construction of a new expressway from Prilep - Lenishka river bridge and construction of a third lane on the road section from the village of Belovodica - Mavrovo quarry; replacement of protective fences according to EN standards on highways on 100 km of Corridor 10; procurement and installation of new signaling at railway level crossings; as well as implementation of measures to improve road safety along selected road sections.

In the part of the railway infrastructure, it is planned to finance the three phases of construction and rehabilitation of the eastern part of the railway - Corridor VIII, the section towards Bulgaria, for which 280 million euros of grant funds from the EU have been provided for the second and third phase, as well as to start The project of construction of the railway Kicevo - border with Albania, as well as rehabilitation of the section Kumanovo - Deljadrovce. At the same time, the construction of a railway border crossing point with accompanying facilities "Tabanovce" between the Republic of North Macedonia and the Republic of Serbia is planned, which will be financed with a loan and a grant funds from VBIF (Investment Framework for the Western Balkans)

In the field of gasification, the construction of the main gas pipelines section Skopje-Tetovo, Gostivar-Kicevo, and the section Sveti Nikole-Veles, the construction of an interconnecting gas pipeline between the Republic of North Macedonia and the Republic of Kosovo, the construction of an interconnecting gas pipeline between the Republic of North Macedonia and the Republic of Serbia, as well as the construction of an interconnecting gas pipeline between the Republic of North Macedonia and the Republic of Greece.

The most significant projects that are planned to be implemented in this period in the area of municipal and communal infrastructure are the completion of the Project for water supply and waste water drainage in the municipalities of the Republic of North Macedonia, the start of the Project for the improvement of the water infrastructure of the municipalities in North Macedonia, and the implementation of the Project for energy efficiency in the public sector.

The North Macedonia Irrigation Programme and the Agricultural Modernisation Project are major capital projects in the field of agriculture.

In the area of the environment, in addition to the above-mentioned large capital project for the construction of a wastewater treatment plant in Skopje, the Regional project for solid waste, which provides for the establishment of management systems, i.e., solid waste stations in the Southwest, Vardar and Pelagonia region, Southeast region and the Polog regions, is of great importance, and within this period it is planned to start activities for the establishment of a solid waste station in the Skopje region as well.,

In the area of establishing an infrastructure for the collection and treatment of waste water and establishing an integrated and financially self-sustainable waste management system that meets the EU requirements the major capital projects that will be financed through IPA2 Programmes in the period 2020-2025 include Rehabilitation and expansion of the sewage network in the City of Skopje, Project for the construction of a sewage treatment plant and rehabilitation and expansion of the sewage network in the municipality of Tetovo, rehabilitation and expansion of the sewage network in the Municipality of Kichevo, construction of a sewage treatment plant and rehabilitation and expansion of the sewage system network in Bitola, project to close landfills in the eastern and northeastern regions, construction of a central waste management facility, construction of a sorting plant, MBT plant, landfill, composting plant, green point for the eastern and northeastern regions in Sveti Nikole, construction of six local waste management facilities, transfer stations, composting facilities and green points for the Eastern and North-Eastern regions, support in establishing a regional waste management system, procurement of equipment for the Eastern Region, support and preparation of the necessary documentation for procurement of water equipment for the municipalities of Radovish, Kichevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo and Prilep, preparation of project documentation for the improvement of the infrastructure for the collection and treatment of waste water and the water supply network in the municipality of Arachinovo.

In the education sector, it is planned to finance the Project for the construction of gymnasiums in primary schools and the rehabilitation of primary and secondary schools in the Republic of North Macedonia, financed with a loan from CEB, a VBIF grant, and national co-financing, with the aim of promoting physical education as well as improving the overall learning conditions for students in primary and secondary schools. In order to improve the learning conditions in primary education in the country, the Project for the Advancement of Primary Education will continue with a loan from the World Bank. In the area of higher education, the reconstruction of student dormitories in the Republic of North Macedonia is foreseen in order to improve the conditions for students' stay and study.

In the area of social protection, the implementation of the Project for the promotion of social services and the Project for the administration of social insurance will continue, while in the area of justice, activities will be carried out

for the construction and reconstruction of the Idrizovo penitentiary in order to fulfill the international and European prison rules and in the direction of improving the conditions of stay and strengthening the protection of prisoners.

With regard to fair access to quality inclusive education at all levels, the reconstruction of public preschool institutions is a more significant capital project that will be financed through the IPA 2 Programme in the period 2020-2025.

As far as energy infrastructure is concerned, projects that are planned to be financed are the projects implemented by AD ESM and AD MEPSO, namely: Bogdanci Wind Park phase 2, Heating of Bitola, 400 kV interconnection Macedonia (Bitola) - Albania (Elbasan), Photovoltaic Power Plant Oslomej , Miravci Wind Park, Lindane Cleaning Project (OHIS), ESM Project for Transition to Solar Photovoltaics (Photovoltaic Power Plants Oslomej 2 and Photovoltaic Power Plants Bitola), Revitalisation of Hydroelectric Power Plants.

In the direction of reforms in public finances, improvement of the fiscal framework, strengthening the process of planning and execution of the Budget of the Republic of North Macedonia, improvement of revenue collection, strengthening of the public procurement system, internal and external control and transparent reporting, the Project for building effective, transparent and accountable public financial management institutions will be implemented.

In the past period, in the direction of supporting the private sector and providing fresh capital for its needs, 6 credit lines from the EIB have been successfully secured and realised through the Development Bank of North Macedonia in a total amount of 550 million euros. In this area, the 7th credit line intended for financing the Project for small and medium-sized enterprises, mid-market capitalised enterprises, and green transition will be realised in accordance with the economic measures of the Government to protect consumers and companies from the energy crisis.

Table 6. Overview of loan-financed projects

Project	Financed by	Amount of loan in EUR
Project to facilitate trade and transport in the Western Balkans	MBRD-WB	26,200,000
Project to connect local roads	MBRD-WB	33,000,000
Project to connect local roads	MBRD-WB	37,000,000
Wastewater Treatment Plant Project Skopje	EIB	68,000,000
	EBRD	58,000,000
	WBIF grant	69,784,283
Second Project for the improvement of municipal services	World Bank	25,000,000
Project for energy efficiency in the public sector	World Bank	25,000,000
Project for the promotion of social services	World Bank	28,700,000
Social Security Administration Project	World Bank	13,800,000
Project for emergency response to COVID-19 in North Macedonia	World Bank	90,000,000
Project for the modernisation of agriculture	World Bank	46,000,000
Reconstruction of penal institutions	Development Bank of the Council of Europe	46,000,000
Project for the improvement of primary education	World Bank	21,500,000
Project for the reconstruction of student dormitories in the Republic of North Macedonia	KFV Bank	20,000,000
Rehabilitation of the eastern part of the railway of Corridor VIII – first section (Kumanovo – Beljakovce)	EBRD	46,400,000

Project "Construction of a new and reconstruction of the existing section Belyakovce - Kriva Palanka - the eastern part of the railway of Corridor VIII, phase 2	EBRD	145,000,000
Project for reconstruction of the railway line of Corridor H	EBRD	17,600,000

2.4.3 RSM Budget deficit and financing

Financing of the planned deficit, as well as debt repayments, will be provided through borrowing from foreign and domestic sources (Table 7). For the budget deficits, in the period 2024-2028, the state is expected to borrow abroad; that is, the borrowing can be realised with funds provided on the international capital market through the issuance of debt securities and through the withdrawal of funds from favorable loans from foreign financial institutions and credit lines intended for financing individual projects. In doing so, the choice of a specific source for external financing will be based on the current and expected conditions of the international capital markets. Furthermore, borrowing on the domestic market will be realised through the issuance of government securities or domestic loans, which will provide additional financing under favorable conditions. In order to optimise payments and reduce the risk of refinancing, the Ministry of Finance will continue to issue government bonds with longer maturities and different types of bonds (for example, civil bonds project bonds), thereby reducing the risk of debt refinancing. In order to efficiently manage the public debt, the Ministry of Finance in the medium term will monitor the possibility of possible early repayment of part of the debt, that is, achieving a more favorable maturity, currency, and interest structure of the debt.

Table 7: Deficit financing

	Realisation 2021	Realisation 2022	2023*	2024*	2025*	2026*	2027*	2028*
Budget balance	-38,885	-35,511	-42,759	-31,690	-29,851	-32,945	-33,164	-31,017
Deficit financing	38,885	35,511	42,759	31,690	29,851	32,945	33,164	31,017
Inflows	81,480	42,087	94,876	62,662	93,297	111,759	100,255	98,379
Domestic sources	23,692	11,869	33,626	31,957	35,624	39,503	38,930	38,298
Foreign sources	61,258	18,031	66,876	36,376	45,801	67,751	62,601	57,451
Deposits ("-" is account accumulation)	-3,470	12,187	-5,626	-5,671	11,872	4,505	-1,276	2,630
Outflows	42,595	6,576	52,117	30,972	63,446	78,814	67,091	67,362
Repayment after domestic borrowing	6,123	1,862	15,611	10,376	13,992	14,742	14,105	13,422
Repayment after foreign borrowing	36,472	4,714	36,506	20,596	49,454	64,072	52,986	53,940
Memorandum:								
Net domestic borrowing	17,569	10,007	18,015	21,581	21,632	24,761	24,825	24,876
Net foreign borrowing	24,786	13,317	30,370	15,780	-3,653	3,679	9,615	3,511

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

2.4.4 Budget of general government (consolidated budget of RSM and budget of municipalities)

The budget of the general government includes the consolidated data of the Budget of the Republic of North Macedonia and the budgets of the municipalities. The budget of the Republic of North Macedonia is composed of the central budget (the basic budget, the budget of self-financing activities, funds from donations, and funds from loans) and the budgets of the funds for pension insurance, health insurance, and the Employment Agency.

In line with gradual fiscal consolidation, the General Government Budget deficit will decrease from 3.4% of GDP in 2024 to 2.5% of GDP in 2028.

Table 8. General government budget

	millions of denars								% of GDP							
	2021	2022	2023*	2024*	2025*	2026*	2027*	2028*	2022	2023	2024	2025	2026	2027	2028	
Central budget																
Income	105,443	124,185	153,162	161,394	176,897	192,942	210,177	225,464	15.6	16.6	17.1	17.5	17.7	19.3	20.7	
Expenditures	146,005	157,700	191,150	191,534	205,521	224,688	242,143	255,281	19.8	20.8	20.3	20.3	20.6	22.2	23.4	
Budget balance	-40,562	-33,515	-37,988	-30,140	-28,624	-31,746	-31,966	-29,817	-4.2	-4.1	-3.2	-2.8	-2.9	-2.9	-2.7	
Budget funds																
Income	89,492	94,795	98,372	105,804	112,612	118,149	123,110	128,468	11.9	10.7	11.2	11.1	10.8	11.3	11.8	
Expenditures	87,815	96,044	103,143	107,355	113,841	119,348	124,309	129,668	12.1	11.2	11.4	11.3	11.0	11.4	11.9	
Budget balance	1,677	-1,249	-4,771	-1,551	-1,229	-1,199	-1,199	-1,200	-0.2	-0.5	-0.2	-0.1	-0.1	-0.1	-0.1	
RSM budget (Central budget and funds)																
Income	194,935	218,980	251,534	267,198	289,509	311,091	333,287	353,932	27.6	27.3	28.3	28.6	28.6	30.6	32.5	
Expenditures	233,820	253,744	294,293	298,889	319,362	344,036	366,452	384,949	31.9	32.0	31.6	31.6	31.6	33.6	35.3	
Budget balance	-38,885	-34,764	-42,759	-31,691	-29,853	-32,945	-33,165	-31,017	-4.4	-4.6	-3.4	-3.0	-3.0	-3.0	-2.8	
Local government budget																
Income	38,366	38,716	49,902	52,741	53,276	55,282	58,214	61,087	4.9	5.4	5.6	5.3	5.1	5.3	5.6	
Expenditures	38,527	38,911	49,902	52,741	53,276	55,282	58,214	61,087	4.9	5.4	5.6	5.3	5.1	5.3	5.6	
Budget balance	-161	-195	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Budget of the general government (Consolidated Budget of RSM and																
Income	233,301	257,696	301,436	319,940	342,786	366,373	391,501	415,019	32.4	32.8	33.9	33.9	33.6	35.9	38.1	
Expenditures	272,347	292,654	344,195	351,629	372,637	399,317	424,665	446,035	36.8	37.4	37.2	36.8	36.7	39.0	40.9	
Budget balance	-39,046	-34,959	-42,759	-31,689	-29,851	-32,944	-33,164	-31,016	-4.4	-4.6	-3.4	-3.0	-3.0	-3.0	-2.8	

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

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

2.4.5 Sectoral approach to expenditures

The process of creating policies is operationalised with the process of adopting the strategic priorities of the Government for the respective year and the preparation of the annual program. The concretisation of the policies in each area is carried out by the preparation of three-year strategic plans and annual programmes of the ministries, accompanied by appropriate action plans. The planning process takes place in parallel and coordinated with the planning of financial resources for the implementation of policies in the medium term.

The programmatic approach means showing all the activities of the budget users through appropriate programmes and subprogrammes, which are defined as a set of related activities aimed at achieving the same, common goal.

The sectoral approach is a process in which the Government, through horizontal planning and institutional coordination, with optimal use of resources, acts in the direction of improving the existing situation within a specific area and, at the same time, through the coherence between costs and results, realises its strategic priorities and creates conditions for more efficient operation of the institutions themselves.

The sectoral approach in this document is based on the Classification of the functions of the Government, which was created by the Organisation for Economic Cooperation and Development, and published by the Department of Statistics of the United Nations.

GENERAL PUBLIC SERVICES

The activities and policies that are implemented in the direction of administration, work or support of the executive and legislative bodies, the management of public finances, the work of diplomatic and consular missions, economic aid, etc. are included within this area.

The independent audit institution in the Republic of North Macedonia offers clear and effective recommendations and provides support to the state and other institutions in the improvement of the management of public funds and contributes to greater accountability of the spending of public funds/taxpayers' funds, thereby improving the quality of life of the citizens of the Republic of North Macedonia through the delivery of services respecting the principles of reliability in providing services, continuity and quality of service, transparency, availability, and universal service, protection of users and citizens.

Maintaining financial and macroeconomic stability and increasing the competitiveness of the economy, fiscal sustainability and consolidation of public finances, supporting the economy and investing in infrastructure projects, maintaining solid economic growth, efficient allocation, transparency and accountability of public resources, predictable, efficient and fair tax system and increase in collection of public revenues, reforms in public finances, improvement of the macroeconomic and fiscal framework, economic analyses, strengthening of the process of

planning, execution and reporting of public finances, strengthening of internal and external control, increase of transparency and accountability in operations at the central and local level, improvement of fiscal decentralisation, fiscal capacity and financial discipline, transparency and accountability of municipalities, reduction of the gray economy and encouragement of private initiative and investments, introduction of budget financing in pilot institutions according to the principle of fulfillment of development indicators (SMART-key performance indicators), quality management and coordination with the structures in the process of accession to the European Union, efficient use of the accession aid from the European Union and strengthening of the financial management system by submitting quality tender documentation within the framework of IPA 3, protection of the financial interests of the European Union and national financial interests and the fight against irregularities and fraud, maintaining a professional, motivated and efficient structure for the implementation of European funds, harmonizing the domestic legislation with the legislation of the European Union, are the main priorities for the next mid-term period, and with the aim of successfully managing public finances, achieving higher economic growth and improving the quality of life of the citizens of the Republic of North Macedonia.

Some of the strategic objectives include The establishment of an effective customs policy that supports the government's economic goals, the maintenance of a balance between the interests of the business community and the responsibilities of customs control, in order to ensure the support of legal trade and improved collection of duties, as well as the operational enforcement of the tax policy, through collection and refund of taxes, social contributions from salary and other public charges, inspection supervision, monitoring, and analyzing the functioning of the tax system.

DEFENSE

The goal of the defense policy is the realisation and protection of the national interests arising from the Constitution of the Republic of North Macedonia, the conceptual and strategic documents for security and defense. The common values of the Alliance for collective defense, crisis management, and cooperative security, are also shared through national interests. The defense policy of the Republic of North Macedonia is fully aimed at realizing the basic national defense interests: protection of independence, territorial integrity, and the inviolability of the internationally recognised borders of the state, contribution to the establishment of peace, security and stability in the region, in Europe, and in the world as well as supporting civil institutions in various states and conditions of crisis, emergency, and war..

By becoming a full member of NATO, the Republic of North Macedonia achieved one of its most significant strategic goals, both in terms of defense and foreign policy. At the same time, enormous progress has been made on the road to EU membership and in anticipation of the start of accession talks. The development and promotion of good neighborly relations and regional cooperation also remain strategic and long-term goals of the defense policy of the Republic of North Macedonia.

In order to support national security, the defense system of the Republic of North Macedonia should constantly be ready to perform the following defense missions:

- Defense of the independence and territorial integrity of the Republic of North Macedonia and NATO allies,
- Strengthening regional and global security and stability by participating in international operations and missions and
- Support of civil authorities and citizens.

According to the politically adopted Defense Investment Pledge, as well as the defined goals in the national strategic documents, the percentage of GDP to be allocated to the defense budget will increase by 0.2 percentage points per year, until the allocation of 2% of GDP to defense is met by 2024. The national intention is to maintain a stable defense budget of at least 2% of GDP after 2024.

Defense financing is one of the most important elements that contributes to the creation of prerequisites for the successful strengthening and maintenance of the entire defense system. At the same time, in the past years, a lot of attention was paid, especially to the obligation undertaken arising from NATO's commitments to invest in defense by providing funds in the amount of 2% of GDP and a minimum of 20% investment in equipping and modernisation, which will provide finance for the established goals, tasks, activities and projects, the projected organisational and formation structure, the undertaken international obligations to participate in international operations and missions, the undertaken obligations to fulfill the accepted package of capability-based objectives received from NATO, and the needs for equipping and modernisation.

The complementary long-term goals for the development of defense capabilities and capacities for the next mid-term period are divided into three groups:

Reorganisation and harmonisation:

- Harmonisation of national defense planning priorities with NATO defense planning priorities in order to meet the requested NATO capability-based objectives;
- Advancement of the personnel management and talent management system that will enable the attraction, selection, recruitment, retention, and engagement of high-quality, qualified, and motivated personnel with appropriate professional and work-related competencies in the defense and the Army, and
- Construction of a modern education and training system for defense and Army personnel based on competencies, identified needs, and strengthened integrity.

Modernisation:

- Modernisation and equipping of the Army;
- Revitalisation and functional consolidation of optimal locations of defense complexes, facilities, installations, and infrastructure, and transformation towards green defense;
- Advancement of logistic planning and implementation at all levels; and
- Upgrading a communication information system to support defense management, command and control, and the development of cyber defense capabilities.

Contribution:

- Integration into the political and military structure of NATO and interoperability according to NATO standards and participation in collective defense, crisis management, and cooperative security;
- Providing a national element to support the Army in operations outside the country;
- Provision and support of NATO forces in the role of host country; and
- Integrating national air defense into the Alliance air defense system.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
No. of persons appointed on duty abroad as representatives of Ministry of Defense	30	58	31	33	35	38	40	42
No. of persons participating in international missions and operations	210	117	226	250	300	280	300	310
No. of projects for construction, reconstruction, adaptation and modernisation of facilities and infrastructure	12	20	15	17	22	23	25	25
No. of men and women who are sent abroad for professional upgrade and development	\	women	women	women	women	women	women	women
		32	35	38	42	50	55	58
	\	men	men	men	men	men	men	men
		130	135	145	150	155	160	165
No. of men and women who are sent around the country for professional upgrade and development	\	women	women	women	women	women	women	women
		172	176	181	185	190	195	202
	\	men	men	men	men	men	men	Men
		310	313	315	318	322	325	328

PUBLIC ORDER AND PEACE

Police services

The activities covered by this policy strive for a high degree of safety, security, protection of the freedoms and rights of citizens, and improvement of the quality of life in the Republic of North Macedonia. They are aimed at realizing the following goals:

- Implementation of the public security system;
- Preventing the violent demolition of the democratic institutions established by the Constitution of the Republic of North Macedonia;
- Protection of life and personal safety and property of citizens;
- Preventing the incitement of national, racial or religious hatred or intolerance;
- Preventing the commission of crimes and misdemeanors, discovering and apprehending their perpetrators, and taking other measures determined by law to prosecute the perpetrators of those crimes;
- Protection and respect of the basic freedoms and rights of man and citizen, guaranteed by the Constitution, laws, and ratified international agreements, and
- Maintenance of public order and peace in the country.

In the next mid-term period, activities are planned that will contribute to:

- Implementation of activities defined in the Strategy for the further development of criminal technology capacities at the regional and local level 2020-2025;
- Non-selective fight against organised crime and corruption; reforms in the direction of the rule of law and the construction of independent institutions;
- Prevention of cross-border crime and illegal migration, and control of readmission, and exercise of the right to asylum;
- Increasing the level of public safety, including road traffic safety;
- Cooperation and establishment of common standards for cyber security and
- Support of international peacekeeping efforts through the implementation of activities for the preparation of future NATO goals.

Courts and Correctional Institutions

This functional area includes programme tasks and operational activities related to: the judiciary, the public prosecution, the state attorney's office, the notary, executors, mediation, advocacy, free legal aid, inheritance, ownership, real rights and obligation relations, international legal aid, the execution of sanctions for crimes and misdemeanors, the organisation and management of penitentiary and correctional institutions, court expert opinions and super expert opinions; criminal, misdemeanor, litigation, non-litigation, and administrative proceedings, as well as other matters established by law.

Priorities and planned activities are:

- An efficient, independent, and professional judicial system,
- Fight against corruption,
- Realisation of human rights,
- Fulfilling the criteria for membership in the EU in the area of "Justice",
- Advancement of information and communication technologies in the justice system and
- Professionally organised and managed penitentiary and correctional facilities.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
Total number of free primary and secondary legal aid users	820	970	3.500	3.800	4.000	4.500	5.000	6.000
Registered offences against public law and order	7.973	6.708	6.500	6.300	6.100	6.000	5.800	5.400
Registered offences in traffic	240.246	205.614	195.000	160.000	145.000	140.200	130.500	120.000
Increased percentage of free legal aid applicants, men and women	/	Women 166 Men 88	Women 125 Men 100	Women 130 Men 110	Women 137 Men 115	Women 145 Men 120	Women 155 Men 130	Women 163 Men 135

ECONOMIC AFFAIRS

Agriculture, forestry, hunting and fishing

In order to ensure modern agriculture, activities are carried out for the economic use of natural resources in a sustainable way through measures to support the development of agricultural and livestock primary agricultural production, respecting the principles of nature and environment protection; processing and marketing of agricultural products of animal and plant origin; ensuring sustainable and economic development of rural areas; promotion of hunting and fishing, provision of protection for the health of animals and plants in order to ensure security, stability, and basis for the development of agriculture, thereby affecting the overall economic growth.

With the National Programme for the Development of Agriculture and Rural Development for the period 2023-2027, activities are planned for :

- Stable production of quality food;
- Increasing the competitiveness of agriculture;
- Stable income of agricultural holdings;
- Sustainable development of rural areas and
- Optimum utilisation of natural resources respecting the principles of nature and environmental protection.

The strategic goal is to improve the competitiveness of the agricultural sector in the open and changing market while maintaining the development of rural areas with optimal use of the hired natural resources that will be achieved through the realisation of the specific objectives of the agricultural policy in the following period in the following areas:

- Restructuring and modernisation of the agricultural and food sector;
- Regulation of markets, organisation of the food chain, and improvement of the quality of agricultural products;
- Improvement of living conditions and economic activities in rural areas;
- Continued access to knowledge and investment in human capital in agriculture;
- Completing the functionality of the food safety system;
- Sustainable management of natural resources and mitigating the impact of climate change of agriculture.

In order to overcome the traditional approach to agriculture and its advancement, an agricultural reform was started to change the subsidy model that will provide security, stability, and a basis for the development of agriculture.

In order to ensure greater protection of human health, food safety, animal health care, their well-being, veterinary public health, and environmental protection from waste of animal origin through the control of regulations in line with the high standards of the EU, the system for control of safety and quality of food intended for human consumption and animal feed and veterinary public health and further harmonisation of EU policies in the field of food safety and veterinary public health will take place.

The goal is to achieve a high level of animal health protection against infectious and other diseases, which means monitoring and preventing the emergence of new diseases in the country in animals and zoonoses in humans, appropriate control and supervision of the diseases that are present in the country with gradual reduction, maintenance of a system of control, supervision, and readiness for suppression and eradication of particularly dangerous infectious diseases.

Energy

The strategic priorities and goals in the field of energy are aimed at sustainable energy development of the country, efficient use of energy and energy resources, meeting the needs of society for electricity and thermal energy, natural gas, and fuels, establishing cleaner and more efficient energy production through rational use of conventional and renewable energy sources, and improving the management of natural resources. The trend is to ensure a reliable, safe, and sustainable energy supply.

National goals in the field of energy, mechanisms, and deadlines for their implementation are defined in the Strategy for the Development of Energy in the Republic of North Macedonia until 2040.

The goal of achieving energy security of the country in the next medium-term period will be achieved through:

- Increasing the share of renewable types of energy in the final energy consumption;
- Protection of the environment and encouragement of energy efficiency;
- Ensuring energy security and stability;
- Liberalisation of the electricity market and growth of investments in the energy sector;
- Increasing the use of natural gas and the use of solar energy in households and
- Integrating the electricity markets with the countries of the region and the member states of the European Union.

A set of measures to deal with the effects of the energy and price crisis in the coming period is envisaged, including: direct financial support to the most vulnerable categories as a cash supplement to cover part of the consumed electricity in a household, the promotion of renewable energy sources and encouragement of energy efficiency in households, and administrative restrictions on prices.

The energy sector continues to face dependence on resources and energy imports, rising prices of imported energy resources, and climate change. Hence, the priority areas to be worked on are: limiting external dependence on imports by diversifying energy supply, saving energy and promoting the use of local resources, and renewable energy sources.

Diversification of gas supply and avoiding the consequences of gas crises will be ensured through the construction of a National Gas Pipeline System in the Republic of North Macedonia.

The establishment, development, and promotion of TIR zones is a significant tool in the economic growth strategies of the Government of RNM due to the possibility of economic development by attracting foreign and domestic capital, developing new technologies, their application in the national economy, increasing competitiveness, and creating employment.

The Government of the Republic of North Macedonia, through the Plan for Accelerated Economic Growth, creates measures to support the economy by providing equal investment conditions for foreign and domestic companies and introducing new financing instruments and mechanisms (the Strategic Green Investment Fund).

The goal of the Fund is the promotion of green investments in the Republic of North Macedonia, including green infrastructure facilities for investors in the zones, in the energy sector, in the service sector, and improving the technological readiness of domestic companies and their inclusion in global supply chains.

The priorities in the future mid-term period include:

- Advancing the activities for easier access of foreign investors outside the zones to the TIR zones
- Advancement of the after care system for the care of investors
- Opening and development of new TIRZ and industrial zones, which would also be realised with the mechanisms of the Strategic Green Investment Fund, in order to attract investments with greater added value, companies that invest in innovation, research and development, and expansion of investments in the sectors: health, pharmacy, IT, etc.

Transportation

In the area of transport, projects and activities are carried out in the direction of developing policies for ensuring an accessible, reliable, and sustainable national and international transport system, quality urban and construction infrastructure, and exercising supervision over the implementation of the laws within its competences. The development of construction and transport infrastructure is a driver of the economic growth of every country, hence the commitment of the Government of the Republic of North Macedonia to finance their development, improvement, and modernisation. Hence, the priorities in the field of transport are: improvement of the infrastructure network in the Republic of North Macedonia in its entirety, improvement of all segments related to transportation - road, rail, air, as well as inland navigation, and improvement of residential and communal infrastructure. To achieve these priorities, the following activities are planned: construction of new road sections and rehabilitation of part of the existing ones, completion of road and railway sections of Corridors 8 and 10, creation of conditions for efficient transport of passengers and goods, as well as provision of transport services with high quality and a high level of safety, construction, i.e., reconstruction of water supply and wastewater treatment systems that will lead to an improvement

in the quality of life, especially in rural areas, which will especially improve the quality of life and animal protection environment. The Units of the local administration also take part in the implementation of these projects.

Information society and administration

In the area of information society and administration, activities are carried out in the direction of effective, efficient, and inclusive policy making with expert, professional, and departmentalised administration through responsible, accountable, and transparent operation of the institutions; digital transformation in the delivery of services for citizens and businesses; developing mechanisms for the establishment of modern "5G" technologies and the development of "NGA" infrastructure; and the construction and development of electronic communication infrastructure and services.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
No. of supported applications from vulnerable categories	/	4.388	5.500	6.000	6.200	6.200	6.500	6.500
No. of new agreements for foreign and domestic investments	6	10	10	14	18	22	26	30
Export of agriculture products (in mil. eur)	628	713	748	783	818	853	888	923
Women holders of agriculture businesses (as per the Register of agriculture businesses)	28.686	28.686	28.700	28.720	28.735	28.750	28.760	28.770

ENVIRONMENTAL PROTECTION

The implementation of policies for the environment, climate action, spatial planning, as well as ensuring the conditions for sustainable development, waste management, protection of air, water, soil, flora, and fauna, while providing monitoring to keep track of the situation regarding the environment, are activities that are part of the Environmental Protection policy. The process of determining the strategic and medium-term goals, as well as the adaptation of existing or the introduction of new practices, essentially contribute to commitment to the improvement of the environment.

These policies are implemented at both state and local level, through appropriate measures and activities implemented by various entities from the public and private sectors to achieve the set goals that are in function of: improving the quality of surface and underground water and ensuring quality drinking water, protection and monitoring of air quality, monitoring and reduction of noise, waste management, protection of soils and prevention of erosion, prevention and reduction of emissions from industry, protection and sustainable use of biological and regional diversity, and adequate management of protected areas, spatial planning with the aim of sustainable use of land and other natural and manmade resources, institutional strengthening and raising awareness of the importance of the environment for the quality of life and people's health. Through the implementation of these measures, a commitment to the development and implementation of effective environmental policies is demonstrated, guided by environmental, economic, and political factors at the national and international level and applying the principles of sustainable development.

Among the more significant projects that will be implemented in the next medium-term period are: Reconstruction of a filter station for drinking water in Berovo, Municipality of Berovo, Reconstruction of the water supply system in Bogdanci, Municipality of Bogdanci, construction of fecal sewage in the settlement of Strachinci, Municipality of Gazi Baba, Reconstruction of the water supply pipeline in Kriva Palanka, Reconstruction of the springs, acquisition of new ones, and rehabilitation of catchments in Krushevo, Regulation of a part of Oboden canal in n.m. Aračinovo, Municipality of Aračinovo, construction of a water supply system in the Municipality of Delčevo, a project financed by the Swiss Government and co-financed by the Ministry of Environment and Physical Planning, construction of a wastewater treatment plant for the City of Skopje, a project worth over 197,2 million euro, financed by a loan in the amount of 68,000,000 euro from the European Investment Bank EIB, a loan in the amount of 58,000,000 euro from the European Bank for Reconstruction and Development (EBRD), a technical assistance grant in the amount of 1,429.250 euros, provided with the support of EIB and EBRD, as well as an investment grant of 69,784,283 from VBIF. The realisation of the Regional project for solid waste, which will be realised through a loan of 55 million euros from the European Bank for Reconstruction and Development (EBRD), a €5 million donation from the Swiss State

Secretariat for Economic Affairs ("SECO"), and a €22.5 million investment grant from the VBIF, is one of the greatest priorities and, at the same time, a national priority in the context of joining the EU. It is expected that with this project, regional waste management systems will be established in the Republic of North Macedonia in five regions of the country, which is an important step towards a sustainable solution for solid waste management services.

Furthermore, the European Investment Bank EIB provided a loan in the amount of 50,000,000.00 euros for financing the construction of water supply systems, water supply networks, etc. in all municipalities in the Republic of North Macedonia.

Within the Programme for IPA funds programme network, the execution of several projects is anticipated, including: the IPA project for rehabilitation and expansion of the sewerage network in the municipality of Kichevo, construction of a wastewater treatment plant and rehabilitation and upgrading of the sewage network in the Municipality of Bitola, construction of a treatment plant for waste water and rehabilitation and upgrading of the sewage network in the Tetovo district, etc.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
Construction of water supply networks (length in meters)	5.285	27.544	35.675	40.152	45.896	47.352	48.484	49.258
Construction of sewage networks (length in meters)	581	19.750	34.200	38.553	40.689	41.254	41.568	42.567
No. of developed elaborations for environment protection	432	500	450	490	510	530	540	550

HEALTH

The Health Policy is aimed at improving the effectiveness and satisfaction of citizens with the functioning of the sector and improving health services.

The priorities in the policy for the period 2024-2028 are as follows:

- Care for citizens' health
- Maintaining the stability of the health system
- Increasing the quantity and availability of health services

The basis of the health care system in the Republic of North Macedonia is primary health care oriented towards the individual, the family, and the community, with an emphasis on preventive health care and meeting the majority of the health needs of the population.

Within this policy, activities aimed at improving the health infrastructure and the conditions for better health care of the population are implemented. The investment activities are aimed at the purchase of medical equipment for the needs of the PHI in RSM, the construction, reconstruction, and extension of the facilities in the PHI, as well as the realisation of the project - Construction of a clinical center in Shtip.

Within the preventive and curative health programmes, activities are undertaken with the aim of achieving better communication and providing quality health services. At the same time, the activities of the preventive programmes are aimed at:

- prevention of cardiovascular diseases,
- systematic examinations of pupils and students that are intended to the complete prevention of deformities, the detection of bad habits, and detection of individual diseases among the entire school and student population,
- activities for organizing and promoting blood donation,
- immunisation of the population through the procurement of vaccines,
- activities related to the early detection of persons possibly ill with brucellosis,
- continuous procurement of medicines for tuberculosis patients, protection of the population from AIDS,
- active health care of mothers and children,
- early detection of malignancies with the activities of gynecologists to call for a Pap test and screening for cervical cancer in women, screening activities for colon cancer, and screening activities for breast cancer.

The activities carried out within the curative programmes are aimed at:

- organizing points for free examinations in squares and rural areas, free examinations for the prevention of heat waves within the framework of the health for all program,
- health care of persons with social disorders,
- supply of methadone and buprenorphine, as well as a full service of treatment of persons with addiction diseases, provision of expenses for patients treated with dialysis, and activities for patients with hemophilia,
- procurement of drugs for the treatment of rare diseases,
- supply of insulin, insulin needles, glucagon, sugar measuring strips and pumps for continuous supply of insulin for insulin-dependent patients.

Health insurance

The Health Insurance Fund of Macedonia was established for the purpose of implementing mandatory health insurance as an institution that performs activities of public interest and the public powers determined by Law.

The Health Insurance Fund provides funds for basic health care, for the network of health organisations, and for financing the activity of health organisations, based on the prices of health services, that is, programmes and contracts for the implementation of the health care of the insured.

The Health Insurance Fund finances its operations from its own income (contributions from wages) and from a transfer from the central budget.

in mil. denars

	2021	2022	2023	2024	2025	2026	2027	2028
Total revenues	35,986	38,711	41,636	43,791	46,020	48,392	50,905	53,573
Income from contributions	19,890	21,896	24,312	26,427	28,145	29,975	31,923	33,998
Transfer from budget	7,383	7,570	6,846	6,391	6,391	6,391	6,391	6,391
Other revenues	8,713	9,245	10,478	10,973	11,484	12,026	12,591	13,184
Percentage of participation of budget transfers in total income	21	20	16	15	14	13	13	12
Total expenditures	35,595	38,719	42,636	43,991	46,220	48,592	51,105	53,773
Health protection	31,146	33,913	37,564	38,641	40,650	42,812	45,315	47,973
Sickness allowances	3,905	4,244	4,500	4,700	4,900	5,100	5,100	5,100
Other expenditures	544	562	572	650	670	680	690	700

The table shows that revenues are growing over the years, reaching 35.9 billion denars in 2021, i.e., projected at 41.6 billion denars in 2023. The transfer from the central budget has a decreasing tendency, so in 2021 it amounts to 21% of total revenues, that is, projected 12% in 2028.

Contributions from salaries from health insurance, transfers from the Ministry of Labor and Social Policy for maternity leave, and other non-tax revenues have the largest share in the structure of the Fund's income. The income from salary contributions also includes contributions for unemployed persons paid by the Employment Agency of the Republic of North Macedonia, for beneficiaries of social rights paid by the Ministry of Labor and Social Policy, for pensioners paid by the Pension and Disability Insurance Fund of the Republic of North Macedonia, and for uninsured persons paid by the Ministry of Health.

Over the years, expenses have been growing, reaching 38.7 billion denars in 2022, i.e., a projected 42.6 billion denars in 2023.

Capitations

The capitation point increase for family doctors, gynecologists, and dentists was implemented on July 1, 2016 and October 2019. Since January 2023, the value of the capitation point for selected doctors in general medicine and gynecology has increased again, from MKD 63 to MKD 75. For the selected dentists, the capitation point increased from MKD 48 to MKD 61 per insured person.

Public health facilities

The basic package of health services is divided into the following categories: primary health care, specialist-consultative health care, and hospital health care. As a buyer of health services, the Fund concludes contracts with health institutions for the type and volume of health services.

PHI's income includes income collected from the Fund, funds from health care programmes, its own income, and donations.

The total determined budget of funds from the Health Insurance Fund for the year 2021 for all PHI is 24.8 billion denars, while the realisation amounts to 24.1 billion denars, and the percentage of utilisation of these funds is 97.2 %.

Structure in 2021				in (000) denars	
Expenditure	realised expenditures in 2020	% of share (2020)	realised expenditures in 2021	% of share (2021)	% 2021/2020
Basic salaries and fees	12.230.514	53.73%	12.492.652	51.70%	102.14%
Materials and small inventory	6.142.697	26.98%	6.664.619	27.58%	108.50%
Utilities, heating, communication and transport	1.115.152	4.90%	1.066.383	4.41%	95.63%
Other expenditures	3.275.084	14.39%	3.941.567	16.31%	120.35%
Total:	22.763.447	100%	24.165.222	100%	106.16%

The total established budget of funds from the Health Insurance Fund for 2022 for all PHI is 23,3 billion denars. The total realised funds for PHI expenditures for the period January-September 2022 amount to 18,366,040 thousand denars. In the period January-September 2022, the incurred expenses for salaries and allowances of PHI amount to 9,800,636 thousand denars.

In the structure of the total paid funds for expenditures, salary funds account for 53.36%, and compared to the same period in 2021, they show an increase of 4.7%. Realised expenditures for materials and small inventory for the period January-September 2022 amount to MKD 4,690,516 thousand. Funds for drugs and medical consumables make up 25.54% of the structure of the total funds paid for expenditures. The funds spent on communal services and other expenditures in the period January-September 2022 account for 5.83%, i.e., 15.27% of the total expenditures.

Structure of expenditures January-September 2022				in (000) denars	
Expenditure	realised expenditures January-September 2021	% of share (2021)	realised expenditures January-September 2022	% of share (2022)	% 2022/2021
Basic salaries and fees	9.360.585	55.04%	9.800.636	53.36%	104.70%
Materials and small inventory	752.422	4.42%	1.070.681	5.83%	142.30%
Utilities, heating, communication and transport	4.423.114	26.01%	4.690.516	25.54%	106.05%
Other expenditures	2.470.497	14.53%	2.804.206	15.27%	113.51%
Total:	17.006.618	100%	18.366.040	100%	107.99%

The total budget allocated from the Health Insurance Fund to all PHI for the year 2023 is 23.2 billion denars.

The salary increase in public health has been carried out for several years: in September 2018, the basic salary of employees in public health institutions was increased by 5%; in January 2019, there was an additional increase in the salaries of health workers, doctors, paramedics, and technicians, 5% for nurses, 8% for Clinic nurses, and 10% for specialist doctors; and the salary of the administration in healthcare was increased by 5%. In 2020, the salaries of specialist doctors were increased by 25% and those of nurses by 10%. Also, in 2022, the salaries of health workers increased by 5%.

In 2023, the salaries of healthcare workers will be aligned with the minimum wage.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
No. of performed controls (check of contributions, participation and salaries, sick leave, treatment abroad, control of public medical practitioners' offices, special hospitals,	5.000	7.000	6.000	6.200	6.500	6.700	7.000	7.500

farmacies and private medical offices)								
No. of concluded contracts with private medical practitioners, public medical practitioners' offices and pharmacies	3.900	4.000	3.800	3.900	4.000	4.100	4.200	4.300
Percentage of share of private expenses for health services in total health expenditures of the country	45	45	Bellow 45%	Bellow 45%	Bellow 45%	Bellow 45%	Bellow 45%	Bellow 45%

RECREATION, CULTURE AND RELIGION

Sports and Recreation Services

In the field of sports, activities are being implemented, related to development and popularisation of sports, by increasing the percentage of citizens who play sports, improving the quality of national and international sports, creating a system, wherein professional sports and sports results will be promoted, strengthening the quality of life, social interaction, personality development and a healthy lifestyle for as many citizens as possible, providing a high-quality sports infrastructure, increasing the number of athletes and improving sports results, promoting gender equality in all areas of social life and including the gender perspective in the policy making and budget creation, as well as via inclusive inclusion of persons with disabilities in all segments of sports.

Culture-Related Services

As per the Law on Culture, culture covers three segments as follows: works, as a process of creating works of art, activities related to publication of works of art, as well as activities aimed at protecting and using the works. Hence, tasks and obligations arising from the prescribed specific competences are detected in the following areas:

- Activities in the field of culture and arts;
- Promotion of culture, cultural development and cultural policies;
- International cooperation and cooperation with UNESCO;
- Cooperation with the EU institutions and integration of the European values;
- Organisation, development and funding of culture activities;
- Monitoring, analyzing and proposing acts and measures for development and promotion of culture;
- Protection, management and revitalisation of cultural heritage;
- Exercising and protection of the copyright and the related rights;
- Supervision by an entity in charge of culture activities;
- Preparation of regulations and other acts in the field of culture.

Financing of the national interest in the field of culture is carried out pursuant to the Law on Culture, whereby the operations of the national institutions in the field of culture are financed and participation is taken in financing projects of national interest in the field of culture of other legal entities and natural persons in the following activities: publishing activity, music and theater, folklore, cultural events and visual arts, architecture and design, protection of cultural heritage, international cooperation and EU integration.

Investments in the Field of Culture

Particular attention is paid on improving the working conditions of artists by building new facilities and investing in national institutions related to culture. Construction of the Turkish Theater in Skopje, the Theater and the Library in Tetovo are being financed, as well as the construction of the theater in Strumica, the reconstruction of the Culture Center in Kumanovo, the reconstruction of the Culture Center "ASNOM" - Gostivar, then reconstruction of the Culture Center "Beli Mugri" - Kochani, the reconstruction of the roof and the old part of the building of the National and University Library "Sv. Kliment Ohridski" - Skopje.

In the period to come, investments will continue to be made, all to the end of improving the infrastructure in the field of culture, by making investments in the reconstruction of the following: the Museum of the Republic of North Macedonia, the National Gallery of Macedonia, the Culture Center "Anton Panov" - Strumica, the Culture Center "Marko Cepenkov" - Prilep, the Culture Center - Bitola and the National Theater - Bitola.

Religious and Other Community Services

As regards religion, the ongoing activities pertain to the legal status of churches, religious communities and religious groups, as well as the affairs referring to the relations between the state and churches, the religious communities and the religious groups. Actions upon various issues of relevance for the state, the religious communities and the religious freedoms and rights of citizens, actively contributing to the improvement of interfaith relations and fostering high standards of dialogue and respect.

Priority activities are aimed at active promotion of the cultural and religious values of the Republic of North Macedonia on the basis of permanent and constructive cooperation with the registered churches, the religious communities and the religious groups and state institutions, promotion of the cultural and religious values of the Republic of North Macedonia and promotion of the inter-confessional cooperation, ensured protection of the principle of secularism, advanced religious freedoms and rights and international cooperation, strengthened towards the needs of the religious communities.

Priority objectives and activities for attaining the strategic priority for the upcoming medium-term period are the following:

- Promotion of cultural and religious value of the Republic of North Macedonia and promotion of inter-confessional cooperation;
- Ensured protection of the principle of secularism, promotion of religious freedoms and rights;
- Activities aimed at promoting the needs of the religious communities and achieving close cooperation therewith.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
Number of realized events and festivals in the field of drama, publishing, musical stage activities, folklore activities and events following special competitions	44	44	25	37	40	42	43	44
Coverage of citizens with sports activities	15%	16%	16%	16%	17%	17%	17%	18%
Number of implemented interdisciplinary projects with a gender component in order to improve the status of women in society and number of women project holders			30	32	35	36	40	42

EDUCATION

Policies implemented by the Government of the Republic of North Macedonia as regards upbringing and education of all types and degrees are aimed at providing comprehensive, inclusive and integrated education focused on the participants in the upbringing and educational process, accompanied by modern programmes that provide for future generations to acquire knowledge, skills and competencies as per the needs of the democratic multicultural society, the labour market and the new challenges in the global scientific and technological environment.

2018-2025 Education Strategy of the Republic of North Macedonia is the basis of the activities implemented by the institutions in the Republic of North Macedonia in the field of education in the next medium-term period, with the existing conditions in the education system as a starting point, being aimed at their gradual improvement, as per the set priorities.

As regards this policy, a series of measures and activities are being implemented, pertaining to adult education, organisation, financing, development and promotion of education, upbringing and science, upbringing and education of children with special educational needs and children of workers temporary working or staying abroad, verification of professions and specialisations in education, improvement of high-school and university students' standard; technological development and innovation support, information technology and technical culture development of digital skills and other activities related to education. Via monitoring, expert insight, research, promotion and development of the upbringing and educational activity in the field of preschool, primary, high-school and artistic, secondary vocational and post-secondary education, education for children with special educational needs and the adult education, upbringing and educational process of the pupils' dormitories, as well as the education of the children of the citizens of the Republic of North Macedonia abroad aimed at learning the mother tongue and culture, the educational system is being improved.

There are ongoing activities geared towards promoting the adult education, coordinating the cooperation with the international institutions and other organisations related to adult education, ensuring quality, particularly by setting standards and criteria for formal and informal adult education. Various types of student assessments are organised, also including the international tests (such as the Programme for International Student Assessment - PISA and the Trends in International Mathematics and Science Study (-TIMSS)). The controls, the inspection surveillance, as well as the implementation of an integral evaluation provides for determining the observance of the legal regulations related to education and quality of the upbringing and educational process in all educational levels.

For the purpose of developing the community as an advanced knowledge-based society, with sustainable economic development, more and better jobs and greater social cohesion, while also providing environmental protection for the future generations, in particular exchange, cooperation and mobility in the field of education and training, the European programmes pertaining to education, training, youth population and sports in the Republic of North Macedonia, are promoted and implemented.

Activities in the medium-term period are aimed at accomplishing the following priorities:

- Creating education in the best interest of children, which allows each student to reach their full potential;
- Ensuring high-quality and inclusive higher education and improving the student standard;
- Scaled-up investments and science development, research and innovations and
- Improving the lifelong learning system.

For the purpose of accomplishing these priorities, activities will be undertaken so as to improve the contents and increase the accountability in the primary and secondary education, increase the scope of pupils and students and improve the inclusion and inter-ethnic integration, improve the learning conditions and the accomplishments of pupils and students, invest and develop digital skills and critical thinking, harmonise the vocational education and training with the labour market needs, develop regional centers for vocational education and training, modernise the adult education system line with the lifelong learning prospects, develop new model for financing the primary and secondary education with a new formula for distribution of block grants with determined cost per pupil calculated on the basis of standards, optimise the school network, ensure quality and effectiveness of higher education as per the European sound practice, develop a new model for financing the higher education, improve the higher education accreditation and evaluation system, improve the student's life and increase the living standard of the youth population and implement measures leading to easier first employment thereof, as well as keep them in the country, improve the high-school and university students' standard, invest in better conditions in the students' dormitories, energy efficient reconstruction of student dormitories, increase the national funds for research activity, strengthen the international cooperation in the field of science, research and innovations, create the Smart Specialisation Strategy, enhance the formal adult education system, develop the system for validation of non-formal and informal learning.

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
Number of funded scientific research projects	40	80	65	100	100	100	100	100
Number of scholarships awarded to Roma high school students	870	899	950	960	960	970	980	1000
% of enrolled female students in construction-geodetic, agricultural-veterinary and forestry-woodworking professions	34.53%	37.43%	39.00%	40.00%	42.00%	44.00%	46.00%	47.00%

SOCIAL PROTECTION

Policies related to labour and social affairs include expenditures for activities in the field of labour relations, employment, pension and disability insurance; occupational protection; providing resources for the temporarily unemployed people; wages and living standard; social policy; humanitarian policy for the sake of harmonised economic and social development; protection of children and minors; protection of youth and women; protection of persons with development impairments and others.

Under this policy, activities are being implemented, which are geared towards improving the social services, whereby the investments are intended for construction, reconstruction and extension of the social protection facilities and the

elderly homes, as well as realisation of projects financed with loans. Activities under the respective programmes are aimed at:

- providing social protection
- activities aimed at protecting children
- financing the programme activities of the national disability organisations and their unions, associations combatting family violence and the Red Cross of the Republic of North Macedonia etc.

Pension and Disability Insurance

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. Pension and Disability Insurance Fund finances the operations from own revenues and transfer from the Central Budget.

Pension system in the Republic of North Macedonia rests upon three pillars:

- First pillar - ongoing financing system, insurance based upon generational solidarity;
- Second pillar - mandatory fully-funded pension insurance and
- Third pillar - voluntary fully-funded pension insurance.

When projecting the pension-related expenditures, the legal regulations are taken into account, as per which the insured person acquires right to old-age pension when he/she turns 64 years of age (men), i.e. 62 years of age (women) and at least 15 years of pensionable service (tenure).

Denar million

Pension fund	2021	2022	Будет 2023	2024	2025	2026	2027	2028
Total revenues	81,495	85,128	93,354	101,134	106,039	111,011	116,217	121,667
Salary contributions	46,030	50,594	58,301	64,373	68,493	72,880	77,552	82,528
Transfer from budget	32,050	31,022	31,258	32,700	33,352	33,794	34,175	34,487
Other income	3,415	3,512	3,795	4,061	4,194	4,337	4,490	4,652
Percentage of participation of budget transfers in total income	39	36	33	32	31	30	29	28
Expenditures	80,147	87,608	97,124	102,290	107,039	112,011	117,217	122,667
Pensions	6,289	67,567	75,000	78,750	82,687	86,821	91,162	95,721
Transitional expenses to private funds	9,233	10,827	11,800	12,700	13,000	13,300	13,600	13,900
Other expenditures	8,623	9,214	10,324	10,840	11,352	11,890	12,455	13,046

	2021	2022	2023	2024	2025	2026	2027	2028
Pension beneficiaries	330,211	338,359	345,245	348,000	351,000	354,000	356,000	360,000

Tables show the upward trend of the Fund's revenues, whereby revenues generated on the basis of wage contributions accounted for the most in the revenue structure (in 2023, they account for 62.4% of the total revenues, while Central Budget revenues account for 33% thereof). In addition, percentage reduction of the transfer from the Central Budget may be recorded, from 38% in 2021 to 29% in 2028.

Expenditures record upward trend, whereby they reach up Denar 97.1 billion as projected in 2023. In 2022, Denar 67.5 billion was spent for payment of pensions, and Denar 10.8 billion as transitional costs to the second pillar.

As per the amendments to the Law on Pension and Disability Insurance in 2022 ("Official Gazette of the Republic of Macedonia", no. 67/2022), the manner of pension indexation was changed i.e. old-age pension indexations is carried out as the trends of the Consumer Price Index, accounting for 50% and the increase in the average wage paid to all employees in the Republic of North Macedonia, accounting for 50%. Pension is indexed on 1st March and 1st September every year as per the percentage obtained as a sum of the increase in the Consumer Price Index in the previous half of the year and the percentage increase in the average wage paid to all employees in the Republic of North Macedonia in the previous half of the year in relation to the previous half thereof.

Percentage of Pension Indexation

year	2017	2018	2019	2020	2021	2022	2023
First alignment	0.82	1.69	0.7	0	1.2	2.9	8.4
Second alignment	0.76	1.8	0.4	0.6	1.2	6.8	

Law on Mandatory Social Insurance Contributions governs the types of mandatory social insurance contributions, entities in charge of paying the contributions, entities in charge of calculating and paying the contributions, bases upon which contributions are paid, contribution rates, manner of calculation, payment deadlines as regards the contributions, control over the calculation and payment of contributions, as well as other issues of relevance for determining and paying the contributions.

Mandatory social insurance contributions include the following:

- pension and disability insurance on the basis of current payment;
- mandatory fully funded pension insurance;
- reduced services years of retirement
- health insurance and
- unemployment insurance.

As regards 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, also being valid in 2024. Mandatory pension and disability insurance rate, as of 1st January 2020, accounts for 18.8%, with the amount being stipulated under the Law on Mandatory Social Insurance Contributions ("Official Gazette of the Republic of Macedonia", no. 47/18).

Percentage of contribution	Compulsory pension and disability insurance	Compulsory health insurance	Employment	Supplementary 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

Labour Market and Boosted Labour Force Competitiveness

Employment Service Agency of the Republic of North Macedonia, with its employment centers, develops and carries out services by boosting the labour force competitiveness and meeting the labour market, also by applying an individual approach to operating oriented towards the needs of the unemployed people and the employers. This Agency finances the operations from own revenues and transfer from the Central Budget.

Denar million

	2021	2022	2023	2024	2025	2026	2027	2028
Total revenues	3,691	3,795	3,804	3,828	4,067	4,303	4,553	4,777
Total income from contributions	2,918	3,214	3,392	3,668	3,927	4,163	4,413	4,677
Transfers from the Budget	732	555	372	100	100	100	100	100
Other income	41	26	40	60	40	40	40	0
Expenditures	3,363	3,303	3,804	4,022	4,096	4,303	4,552	4,778
Expenditures for function	3,047	2,961	3,470	3,632	3,706	3,913	4,162	4,388
Allowance for unemployed	1,388	1,282	1,526	1,600	1,600	1,650	1,650	1,650
Active employment policies	1,365	1,420	1,450	1,500	1,550	679	1,903	2,102
Expenditures for function	294	259	494	532	556	1,584	609	636
Expenditures for professional service	316	342	334	390	390	390	390	390

Under the Operational Plan for Active Employment Programmes and Measures and Labour Market Services, programmes, measures and services are determined, which will provide for job creation, support for job creation and increased employability of the unemployed people, in particular the youth population, long-term unemployed people and beneficiaries of the right to pecuniary assistance and social protection, as well as support for unemployed people, whose employment termination was registered during the COVID-10 induced crisis period.

When implementing the employment programmes and measures, the following basic principles are observed:

- Coping with the adverse effects and consequences on the labour market and the employment, triggered by COVID-19 pandemic;
- Principle of diversity and inclusiveness for all social categories in the private sector as per the principles of fair and adequate representation of ethnic, gender, religious, racial or any other vulnerable category of citizens, in line with the standards and practices of the United Nations and the International Labour Organisation;
- Encouraging balanced regional development in line with the data from the Regional Development Bureau and the degree of development of planning regions in the Republic of North Macedonia.

One of the goals is reducing the long-term unemployment and dependence on guaranteed minimum income, by effectively including the vulnerable groups, in particular the beneficiaries of guaranteed minimum income on the labour market by their inclusion in specialised programmes and services focused on skill development.

Activities are also defined, which enable the young unemployed persons to be part of the educational process (other than the regular educational process) or to be involved in any of the active employment measures or services, thus providing them with greater opportunities for employment or offering them adequate employment matching their education and skills. Activities include group and individual counselling, providing job search assistance services; motivational trainings; inclusion in any of the labour market integration measures (employment, education and training measures).

Performance Indicators

Output indicators	2021	2022	2023	2024	2025	2026	2027	2028
Number of prepared decisions for exercising the right from pension and disability insurance	30.325	33.500	31.300	31.500	31.600	31.700	31.800	31.900
Number of beneficiaries of parental allowance for the third child	23	22	20	18,477	15,087	12,661	10,413	8,500
Number of women beneficiaries of the measure Support for the creation of new jobs from the Employment Operational Plan		1,070	1,177	1,295	1,424	1,567	1,723	1,896

2.5 Local Government Budget

Decentralisation of the competences to local government and strengthening its capacity is one of the priorities arising from the Accession Partnership of the Republic of North Macedonia with the EU and the Framework Agreement. Since 2012, all municipalities (except for Plasnica) finance the transferred competence with block grants, when the phased approach for transferring and managing the operating and the financial resources for the transferred competences in the field of education, culture, child care and social protection ended.

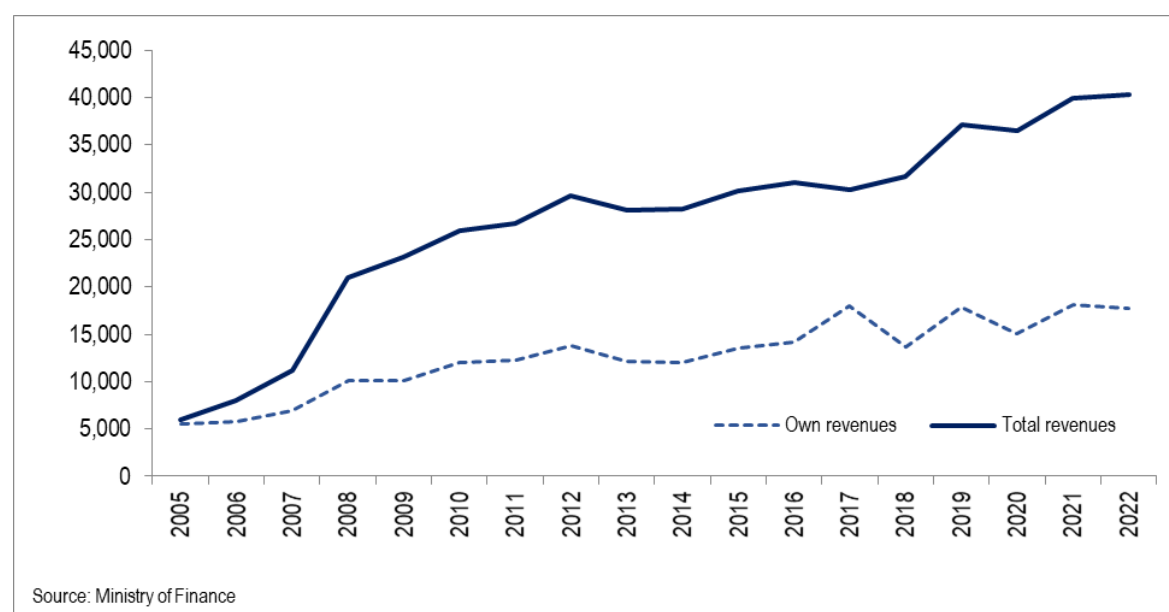
Competences in several sectors transferred to the municipalities have increased both the administrative and the fiscal capacities, as well as strengthened the capacities for managing larger amount of funds. Successful administration and collection of own revenues contribute to resuming the process of increased own revenues of municipalities and the strengthened capacities for fund management, improved performance of the transferred competences and management of financial and other resources. In addition, municipalities successfully administer new competences related to managing construction land, dealing with illegally built facilities, accompanied by adequate collection of additional revenues. Successful implementation of fiscal decentralisation, with fully established legal and institutional framework for local government, provides for developed, responsible and functional local government units and level of local democracy, bringing the citizens closer to the local government institutions. Progress in achieving the decentralisation-related goals is assessed as successful by many international institutions,

which assisted with several projects geared towards improvements in the system for management, control, transparency and coordination in managing local government reforms.

At the same time, the capital market has become more accessible under more liberal and transparent requirements for borrowing, with the municipalities showing increased interest in financing investment projects on the basis of borrowing. To that end, the Government has provided credit lines from international financial institutions (World Bank, EIB, KfW and EBRD), which have provided for substantial investments, especially in: reconstruction and rehabilitation of local streets, roads and bridges, construction and reconstruction of water supply and atmospheric water networks, improvement of public hygiene and increasing energy efficiency in municipal public facilities and local spatial landscaping.

As regards the level of decentralisation, Republic of North Macedonia, according to the data on 2022 expenditure execution (around 5% of GDP), belongs to the group of decentralised countries. Furthermore, compared to 2005, when the process of transferring the competence and fiscal decentralisation commenced, today, municipal revenues have increased by more than six times (Denar 5.9 billion in 2005, more than Denar 40 billion in 2022). Tax revenues, which the municipalities are authorised to collect, have increased by more than three times during the same period (Chart 13).

Chart 13. Own and Total Revenues in the period 2005 - 2022 (Denar million)



Municipalities in the Republic of North Macedonia are financed from own sources of revenues, grants from the Budget of the Republic of North Macedonia for the competences transferred in the field of education, culture, social protection and fire fighting, revenues determined in separate laws, revenues transferred to the municipalities, on the basis of taxes or fees collected at central level, transfers from the Budget of the Republic of North Macedonia and other institutions intended for realising certain capital projects, revenues collected on the basis of donations and loans and other income.

Own revenues of the municipalities are collected on the basis of local taxes (property tax, inheritance and gift tax, tax on sales of real estate), local fees prescribed by law (utility fees, administrative fees and other fees stipulated by law), local charges (landscaping of construction land, utility activities, spatial and urban plans), revenues collected on the basis of leased property and other revenues stipulated by law. As per the latest amendments to the Law on Financing Local Government Units, personal income tax revenues are to gradually increase from 3% to 6% by 2024, on the basis of the collected personal income tax on wages of individuals as per the permanent place of residence in the municipality, thus, as of the day of the entry into force of the Law until the end of 2022, the municipalities were transferred 4% of the revenues collected on the basis of personal income tax. Municipalities also receive 100% of the revenues collected on the basis of personal income tax from individuals engaged in craftsmanship activity, registered in the area of the municipality.

Additional revenues are also transferred as grants from the Budget of the Republic of North Macedonia as follows: revenues on the basis of VAT grants (5% in 2022 and 5.5% in 2023 of the collected VAT in the previous

fiscal year), capital transfers, earmarked and block grants for the transferred competences in the field of education, culture, social protection and fire fighting. Funds from these grants are distributed on the basis of criteria determined in decrees adopted by the Government of the Republic of North Macedonia.

In the course of 2023, the trend of increasing earmarked and block grants for the transferred competences in the field of education, culture, social protection and fire fighting, was kept.

Unreal projecting of the budgets of the local government units, i.e. the too optimistic projecting of revenues is one of the reasons due to which the local government units accrued outstanding liabilities in the previous years. In order to overcome this situation, under the amendments to the Law on Financing the Local Government Units, fiscal rule has been set out for projecting the own revenues of the core budget of the local government units, i.e. projecting of own revenues of the core municipal budget is limited with the performance of the collected revenues in the previous three years. Amendments to the Law on Financing Local Government Units adopted in August 2022, will provide for more realistic projecting of municipal budgets, whereby the percentage of projected revenues in the municipal budgets has been again reduced from 30% to 10%. Thereby, in case the collection of own revenues of municipalities, as of the third quarter inclusive, accounts for more than 75% of the projected ones, they are given the opportunity to further increase the projected revenues to a maximum of 20%, starting 2025. Thereby, in 2023, the own revenues account for 20% with additional 10% as of the third quarter inclusive, accounting for 15% with additional 15% in 2024. At the same time, exceptions are stipulated only if the municipality has provided a confirmation for transfer of funds from an appropriate institution or in the case of changes pertaining to the amount and the type of own revenues of the core budget established by law.

For the purpose of strengthening the fiscal decentralisation, in the period 2021-2024, many activities and measures are realised, being grouped in three pillars, as follows: I. Improved fiscal capacity and increased municipal revenues, II. Strengthened fiscal discipline and III. Increased transparency and accountability as regards municipalities' operations. Ultimate goal of this process is achieving better quality of public services, higher economic growth and better living standard.

The first pillar under this reform, being focused on improved fiscal capacity and increased municipal revenues, will be implemented through activities, projecting increase of the funds distributed to the municipalities on the basis of revenues collected in the central Budget, increased own revenues of the municipalities and distribution of funds to support the good performance. To that end, the Methodology for Distribution of VAT Revenues was revised. In 2022, municipalities were distributed 5% of the collected VAT, distributed in three portions as follows: basic portion - 4.5%, performance portion - 0.25% and equalisation portion - 0.25%. In 2023, municipalities were provided funds accounting for 5.5% of the value added tax collected in the previous fiscal year, distributed in three portions as follows: basic portion - 4.5%, performance portion - 0.5% and equalisation portion - 0.5%. Performance portion rewards the municipalities with higher own revenue collection compared to the projected own revenues and a higher collection of own revenues in the current year compared to the average of own revenues collected in the previous three years. Equalisation part is intended for overcoming the differences in line with the fiscal capacity of the municipalities due to the limited resource capacity, i.e. the municipalities with lower revenues than the personal income tax per capita receive additional funds.

Activities will be also undertaken towards increasing municipal own revenues by improving the efficiency of the administration and determining new local revenues in line with the EU best practices, as well as enhanced criteria on distribution of funds for transferred competences in the field of primary and secondary education, culture, child care and care for elderly and firefighting.

The second pillar, aimed at strengthening the financial discipline of the municipalities, arrears repayment and cost-effective operations, envisages activities aimed at measures for planning the actual revenues and expenditures of the municipalities, rationalising the operations and reducing the unnecessary expenditures, regular servicing of arrears, strengthened financial discipline, procedures on declaring financial instability, issuance of municipal bonds and analysing the existing arrears of both the municipalities and the public enterprises. Strengthened government control will be ensured through the supervision carried out by the financial inspection with respect to the compliance with the provisions referred to in the Law on Reporting and Recording of Liabilities, the Law on Financing Local Government Units and the Law on Financial Discipline.

For the purpose of increased transparency and accountability, within the third pillar of strengthening the fiscal decentralisation, measures will be adopted with respect to increased transparency at the municipalities by announcing the financial reports in a transparent and understandable manner, and activities will be undertaken for the purpose of strengthened accountability when using budget funds. Increased transparency in the municipal operations is one of the preconditions for ensuring legal, earmarked and purposeful usage of public funds, all to the end of accomplishing the goals related to municipal growth and development, as well as efficient provision of services to the citizens and improved quality of life in the municipalities. Increased transparency in the municipal

operations primarily pertains to strengthening the fiscal accountability of municipalities, timely inclusion of the wider public during the municipal policy making process, as well as providing information on the work done.

One of the priorities of the Government of the Republic of North Macedonia is continuation of the decentralisation process to the end of greater democratisation, improved (better quality and expanded) public services and intensified local development in the interest of the citizens. Thereby, in the coming period, municipal development policies, i.e. fiscal decentralisation and equal regional development, will continue to be implemented, to the end of strengthening the municipalities' financial sources, at the same time increasing the accountability and the transparency of their operations to the end of bringing the municipalities closer to the citizens.

Following the economic recovery from the consequences caused by COVID-19 pandemic and the energy crisis, measures and policies focused on intensified, inclusive and sustainable economic growth have been envisaged, geared towards good governance - rule of law, eradicating corruption and capacity building of institutions, also including the measures intended for supporting the fiscal decentralisation, ensuring local and balanced regional development, sustainable and healthy environment and digitalisation of the economy and the public services.

2.5.1 Revenue Collection and Expenditure Execution in the period January – March 2023

Performance of revenues and inflows to the budgets of local government units in the period January – March 2023, amounted to Denar 10,222 million and, compared to the same period last year, they grew by 16.7%. Denar 2,749 million out of this amount was tax revenues, being higher by 20.5% more compared to last year. Revenues collected on the basis of property taxes in this period of 2023 amounted to Denar 992 million, being a slight increase of 2.1%. Income taxes amounting to Denar 198 million, significantly increased by approximately 89.8%, mostly as a result of the increase of both the minimum wage and the wages of the employees, above all in the field of education and social protection, as well as the increased percentage of PIT distributed to the municipalities. Collection of revenues on the basis of tax on specific services amounted to Denar 1,543 million, increasing by 30.1%, while fees for usage or licenses for performing an activity recorded 15.2% drop.

During the analysed period, non-tax revenues were collected in the amount of Denar 356 million and, compared to the same period in 2022, they recorded 18.7% increase. As for non-tax revenues, inflows on the basis of fees and charges predominated, amounting to Denar 253 million, picking up by 21.2% compared to the revenues collected in the same period last year, while other non-tax revenues amounted to Denar 80 million, recording 16.2% growth. Other non-tax revenues amounted to around Denar 23 million, slightly growing by 3% compared to the previous year.

In the period January - March 2023, capital revenues were collected in the amount of Denar 354 million, being lower by 11.9% compared to the previous year. As for capital revenues, they almost fully comprised revenues collected on the basis of sale of land and intangible investments.

Revenues on the basis of grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes and firefighting amounted to Denar 5,463 million, i.e. they increased by 18.3% during the analysed period of 2023. During the period January - March 2023, the revenues on the basis of transfers from the Central Budget and other levels of government, were collected in the amount of Denar 939 million, significantly increasing by 31.5% compared to those collected during the same period last year.

During the period January - March 2023, revenues on the basis of grants were collected in the amount of Denar 156 million, i.e. they decreased by 33.7% compared to last year, whereby inflows from loans were collected in the amount of Denar 25 million, significantly decreasing by 57.9% compared to the same period last year.

In the period January – March 2022, expenditures were executed in the amount of Denar 9,711 million, i.e. execution was significantly higher by 12.1% in relation to the same period last year. These expenditures provided for regular settling of liabilities arising from the transferred competences to the municipalities, necessary for their ongoing operations, implementation of capital projects and principal repayment for the previously concluded loans.

Expenditures related to wages and allowances accounted for the most of the expenditures with 56.9%, i.e. Denar 5,524 million, and compared to the same period last year, they recorded significant growth of 16.6%. The largest part of the wage bill, i.e. 86.4% or Denar 4,773 million, pertained to the employees in the institutions at local level, such as primary and secondary education, culture, kindergartens and old people's homes and fire fighting, around 98.8% of which were financed with block grants. Expenditures related to goods and services were executed in the amount of Denar 1,975 million, accounting for 20.3% of the total expenditures and, compared to the same period in the previous year, they increased by 2.9%. Capital expenditures accounted for 12.1%, amounting to Denar 1,177 million, most of which, i.e. 90.6%, were financed with municipal own funds, 5.3% on the basis of donations, 2.3% on the basis of loans, 1.5% on the basis of grants and 0.3% on the basis for self-financing activities. Capital

expenditures picked up by 10.9%, thus indicating boosted capital investments and overcoming of the consequences from the higher prices of oil and oil derivatives well as electricity. Expenditures related to subsidies and transfers amounted to Denar 786 million, accounting for 8.1%, while principal repayment amounted to Denar 197 million, i.e. 2.0% of total expenditures. Expenditures executed on the basis of reserves, social benefits and interest payments accounted for around 0.5%.

2.5.2 Medium-Term Framework of Local Government Budget

Continuation of the decentralisation process is also one of the priorities indicated in the 2022-2024 Programme of the Government of the Republic of North Macedonia. This speaks in favour of the propensity for providing better democracy in the society, more efficient and cost-effective service rendering and delivery, as well as intensified local development.

The objective thereby is to transfer the competences to a management level the closest to the citizens, for the purpose of their effective performance, with appropriate financial resources and guaranteed inclusion of the citizens in the decision-making process. In the coming period, municipal development policies, i.e. fiscal decentralisation and balanced regional development, will continue to be implemented, to the end of strengthening the municipalities' financial sources, at the same time increasing the accountability and the transparency of their operations. Government will provide resources (organisational and financial ones) so as to assist the smaller municipalities having no sufficient capacity to manage the implementation of major projects at once. This will provide for stimulating the local and the regional development, in particular by maximally absorbing the EU Pre-Accession and new Structural and Cohesion Funds.

Municipalities are expected to continue the trend of improved collection of own revenues, as well as strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. Strategic commitments will continue to be realised in the coming period, by strong committing to encouraging sustainable local development, good local governance and creating conditions for more active, more effective and more innovative role of the local authorities in implementing national objectives for growth and development.

In 2022, Ministry of Finance actively worked on a reform aimed at strengthening the fiscal decentralisation, which offers critical systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. The reform rests on three pillars: enhanced fiscal capacity of municipalities and increased municipal revenues, strengthened financial discipline of municipalities, reduced arrears and cost-effective operations, as well as increased transparency and accountability.

In the course of 2023 and in the medium term, many activities and measures are envisaged for the purpose of strengthening the fiscal decentralisation, in particular improved fiscal capacity and increased municipal revenues, strengthened fiscal discipline and transparency and accountability as regards municipalities' operations.

In August 2022, modifications and amendments to the Law on Financing Local Government Units were submitted to the Parliament of the Republic of North Macedonia. Respective amendments to the Law are aimed at ensuring additional democracy in the society, more efficient and cost-effective rendering and delivery of services, as well as intensified local development.

Amendments to the Law on Financing Local Government Units are aimed at strengthening the fiscal capacity and increasing the municipal revenues by gradually increasing the percentage of VAT revenues, as well as PIT revenues distributed thereto.

Revenues on the basis of personal income are to gradually increase from 3% to 6% by 2024, thus as of the entry into force of the Law until the end of 2022, the municipalities were transferred 4% each from the collected PIT revenues. The rate thereof accounted for 5% in 2023, whereby, starting 2024, the municipalities will receive 6% of the collected PIT revenues. As a result of the rate growing by 5% in 2023, it is expected for revenues to increase to Denar 800 million, whereby in 2024, with a rate of 6%, the revenues would amount to around Denar 1,029 million, i.e. in the medium-term, it is expected for revenues to increase by around 7%-8% every year compared to the previous year.

VAT revenues will be provided, accounting for 6% of the collected VAT generated in the previous fiscal year, starting 2024. Funds will be distributed as follows: 4.5% from the VAT revenues collected in the previous fiscal year in the General Fund, and 0.75% of the VAT revenues collected in the previous fiscal years in the Performance Fund and the Equalisation Fund each. The increase will be gradual, thus, the rate accounted for 5% in 2022, accounting for 5.5% in 2023. In the course of 2022, municipalities were distributed 5% of the collected VAT, distributed in three portions as follows: basic portion - 4.5%, performance portion - 0.25% and equalisation portion - 0.25%. Performance

portion rewards the municipalities with higher own revenue collection compared to the projected own revenues and a higher collection of own revenues in the current year compared to the average of own revenues collected in the previous three years. Equalisation part is intended for overcoming the differences in line with the fiscal capacity of the municipalities due to the limited resource capacity, i.e. the municipalities with lower revenues than the personal income tax per capita receive additional funds. Formula and excel tool have been prepared on the basis of which allocated funds will be distributed, and new Decree on Distribution of Value Added Tax Revenues by Municipalities for 2022 and 2023 was adopted determining the criteria as per which the funds under the basis portion, the equalisation and the performance portions, are distributed. In 2023, municipalities were provided funds accounting for 5.5% of the value added tax collected in the previous fiscal year, distributed in three portions as follows: basic portion - 4.5%, performance portion - 0.5% and equalisation portion - 0.5%. As per the amendments to the Law, during 2022, the municipalities received additional Denar 291 million, additional Denar 684 million in 2023, whereby additional Denar 1,105 million would be provided in 2024. As for the next medium-term period, additional increase of PIT revenues by approximately 8% is expected compared to the previous year.

As regards the activities aimed at enhancing the financial discipline and efficiency, reducing and rescheduling the arrears of LGUs, Ministry of Finance will provide an opportunity to the municipalities to use one of the three credit instruments, all to the end of overcoming the difficulties as regards 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.

Thus, resolving the arrears issue will be linked with the fulfillment of the requirements for declaring financial instability. Moreover, the whole procedure, from the very moment of declaring financial instability to the moment it is overcome, was strengthened.

Municipalities having substantial arrears reported in the Electronic System for Reporting and Recording of Liabilities as of 30th September 2021 inclusive, were provided with the possibility to submit request for using a structural bond by the end of 2022. Four municipalities submitted applications to the Ministry of Finance, and there are ongoing activities for issuing structural bond, by which the arrears of these municipalities would be settled. Rulebook on Declaring Financial Instability was prepared with USAID technical support, being published on the MoF's website. Future steps to be undertaken in the coming period include regular monitoring of the planning of the actual revenues and expenditures of the municipalities, the budget execution and earmarked spending, the arrears, the fulfilment of the requirements for declaring financial instability, as well as the measures, which will be undertaken by the municipalities for overcoming the financial instability. For the purpose of regulating the issue as regards the arrears during 2023, it is planned for a separate Law on Municipal Debt Management to be prepared with USAID technical assistance.

As regards strengthening the fiscal responsibility of the municipalities, the legal amendments are expected to provide for increased transparency of their operations, by which the municipalities are obliged to publish financial data in a transparent manner on their websites, implying strengthened spending accountability for all funds transferred by the Government. Data on revenue collection and expenditure execution of municipalities, as well as the arrears reported in the Electronic System for Reporting and Recording of Liabilities are published on MoF's website on quarterly basis, whereby the Annual Report on the Budget of the Republic of North Macedonia also includes the Annual Report on the Municipal Budgets. With UNDP support, the financial indicators under the periodical financial reports of around 40 municipalities were published in the websites of the municipalities, as well as MoF's website.

By improving the administration efficiency and finding new local revenues, own revenues will be increased.

In the course of 2022, with UNDP technical assistance, the existing Law on Financing Local Government Units was assessed and the generated conclusions and recommendations will be a sound preparatory basis for adopting a new Law. Steps to be undertaken in the future period include adopting a new Law on Financing Local Government Units, which will be harmonised with the new organic Budget Law, followed by the adoption of the respective bylaws.

Additional revenues are also transferred to the municipalities' budgets as grants from the Budget of the Republic of North Macedonia and the Funds' budgets for the purpose of financing their competences stipulated by law. Block grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes, earmarked grants for firefighting, as well as capital grants from the Central Budget, have been transferred from the Budget of the Republic of North Macedonia. Additional Denar 2,392 million has been allocated from the 2023 Budget of the Republic of North Macedonia, for the purpose of financing the transferred competences. Additional funds are provided for financing the wages increased by 15%, intended for the staff in

primary and secondary education and kindergartens, as well as for financing the higher costs for transport and electricity.

Line Ministries and the Funds prepare a methodology for determining the criteria for distribution of block grants, based on a formula by applying indicators relevant to the needs for each Programme. Government of the Republic of North Macedonia adopts a Decree on Methodology for Determining the Criteria on Distribution of Block Grants upon proposal by the respective Line Ministry, upon prior consent by the Ministry of Finance and the Commission on Monitoring the Development of the Financing System of LGUs. During the past period, certain difficulties and unclear distribution criteria were detected at certain transferred competences, thus resulting in unequal distribution of the funds as per the needs. Therefore, certain municipalities faced insufficiency of funds as block grants cover all operating costs. For the purpose of more equitable distribution of grants by municipalities, in cooperation with the competent ministries transferring funds as block and earmarked grants for the transferred competences in the field of primary and secondary education, culture, childcare and protection of elderly persons and fire fighting, it is necessary to carry out comprehensive analysis of the criteria, as per which, funds are distributed for the separate transferred competences, as well as for the purpose of determining a new model of distribution of funds tailored to the needs, thus offering better quality of service. Ministry of Education and Science, in cooperation with UNICEF and the World Bank, is already working on determining new criteria for distributing the block grant for primary education on the basis of a pupils' standard, whereby reforms are proposed, all to the end of optimising the school network, reducing the number of teaching staff and harmonising the required number of teachers with the number of pupils, as well as improving the conditions in primary schools, as well as the curriculum thereof. Purpose is to increase the efficiency and the effectiveness of the primary education, while also ensuring equality as regards the access to schools. Proposals for new criteria have already been presented to the Ministry of Finance and the Commission on Monitoring the Development of the Financing System of LGUs the Municipalities. In the coming period. As for the next period, criteria for distributing the block grants for secondary education will also be considered. In the coming period, Ministry of Finance will, with SIGMA technical assistance, work on analysing the existing methodologies for distributing the block grants in the field of culture, kindergartens and earmarked grant for fire workers. Proposals are expected, aimed at improving the criteria by taking advantage of the experience of other countries generating positive performance. Actions to be undertaken will be geared towards introducing criteria, which would realistically determine the required amount of funds, thus covering all costs for the transferred competences and improving the quality of services.

Government of the Republic of North Macedonia established an Inter-Sectoral Working Group for the purpose of overcoming the issues in the fire fighting area and analysing the developments in this field, wherein earmarked grant is allocated. Working group undertakes activities for amending the Law on Firefighting, in particular as regards the additional regulation of wages and allowances for firefighters, as well as determining the required number of firefighters in line with the criteria set under the Law, as well as resolving the other ongoing issues thereof. Funds are distributed to the municipalities through the Line Ministries and other state institutions in the form of capital grants, for the purpose of implementing the capital infrastructure projects in the respective municipalities. Distribution is carried out in line with a Programme which, upon proposal by the Line Ministry, is adopted by the Government, hence there are no criteria as a whole for distribution of capital grants, which would require prior adoption by the Government. Government will provide for all capital investments for LGU, i.e. the arising from the programmes of the ministries and the agencies, being aimed at municipal and regional projects to be Balanced Equal Regional Development. For the purpose of greater certainty in planning and realising these capital investments, 3-year budgeting will be introduced. In cooperation with the ministries and institutions, wherefrom capital grants are transferred to local government units, it is necessary to additionally and precisely regulate the Decrees on Distribution of Capital Grants, which will stipulate transparent criteria on the basis of which, every municipality would obtain a capital grant. For the purpose of resolving this issue, it is necessary to establish inter-sectoral working group, which will include representatives from the ministries and the institutions, wherefrom capital grants are transferred to the municipalities, as well as carry out comprehensive analysis for distribution of capital grants, i.e. adoption of Decrees pertaining to capital grants. In the course of 2023, UNDP will support Ministry of Finance in reforming the normative framework for designing a formalised capital transfer system. Thereby, few models will be proposed, pertaining to reform of the capital grant distribution, i.e. whether a unified model will be accepted for all Central Budget users or separate models on capital grant distribution will be proposed. Purpose thereof is carrying out a reform as regards the capital grant system, thus providing for practical solutions for designing transparent and objective criteria on capital grant distribution. Thereby, it is necessary to prepare Methodology on Capital Grant Distribution, including unified, transparent and clear criteria, as well as a proposal for setting ex post evaluation of the implemented projects financed via capital grants and potential inclusion of the success as regards the assessment in the distribution criteria.

Stable revenues have been provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the Budget of the Republic of North Macedonia and 50% for the municipalities and the municipalities in the City of Skopje, distributed as such since 2018, depending on the location of the agricultural land under lease, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the ones projected in the previous year. Municipalities' own revenue performance also increased from the funds distributed to the municipalities on the basis of the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the local authorities), depending on which area the concession activity is performed.

Increase in the municipal own revenues, in particular revenues collected on the basis of taxes on real estate was as a result of greater coverage of the real estate of natural persons and legal entities and re-assessment of the value of the real estate. In the coming period, higher revenues are expected to be generated by determining the real market value of the real estate after completing the procedure on recording and legalizing the illegally built facilities on construction and agricultural land. As per the latest amendments to the Law on Property Taxes, in the next period, the real estate market value is to be revised, as a property tax base, by the municipalities, the municipalities in the City of Skopje and the City of Skopje, every fourth year, all to the end of getting harmonised with the ongoing developments. 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, as well as 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. It is also necessary for the municipalities to timely issue and submit the tax decisions to the taxpayers. Increased property tax rate for higher-value properties could be an additional source of revenues, whereby once the rate is increased, it is of essential importance for assessment and auditing capacities be ensured in order to avoid reporting property at lower value. SIGMA technical assistance will be used for exploring the possibilities to increase the local revenues on the basis of the best EU practices, focusing on increased own revenues and preparation of comparative analysis for the best EU practices, as well as recommendations for increasing the present local revenues and introduction of new local revenues.

In addition, municipalities will ensure additional sources of revenues on the basis of performing the transferred competences for management of construction land and treatment of illegally built facilities on construction and agricultural land. At the same time, it is necessary to strengthen the municipal staff capacity.

In the upcoming medium-term period, the new Law on Equal Regional Development, as well the 2021-2031 Strategy for Equal Regional Development, are expected to be implemented. Government of the Republic of North Macedonia will continue to carry out the activities aimed at balanced regional development and enhancement of all regions in the country in the next period as well. Implementation of the 2021-2031 Strategy for Equal Regional Development of the Republic of North Macedonia in the eight planning regions (Vardar, East, Southwest, Southeast, Pelagonija, Polog, Northeast and Skopje regions), by better vertical and horizontal coordination of both the national and the local policies and the integrated development projects adjusted to the local needs and conditions, will provide for more balanced local development throughout the country. Programme for Implementation of the 2021-2031 Strategy for Equal Regional Development of the Republic of North Macedonia incorporated a broad range of activities, programs, accompanied by financing instruments, which will contribute to more equal regional development of the country in the respective period. Council for Equal Regional Development will continue to play a significant role as promoter of partnership between the regions/the municipalities and the Government, and it will coordinate the usage of funds under all sectoral programmes intended for the planning regions and the municipalities. Special efforts will be put in supporting the municipalities by encouraging the local development via supporting the local projects and harmonising them with the national ones. The goal of fiscal equalisation within the context of the Strategy for Regional Development is to ensure equal offer of public goods and services at all LGUs, thereby achieving a complementary effect of more balanced development of certain planning regions. Providing joint assistance to the financially weakest municipalities, i.e. municipalities with the least revenue collection capacity, yields positive effects for both their development and the development of the planning region which they belong to. The 2021-2026 Programme on Sustainable Local Development and Decentralisation was adopted, along with the 2021-2023 Action Plan on the 2021-2026 Programme on Sustainable Local Development and Decentralisation. Programme reflects the continuous interest by all stakeholders in continuous local development of LGUs, as the level of government, most closely to the citizens. Programme covers all significant aspects of the decentralisation process, contributing to harmonising the local government system with the normative, institutional, political and administrative EU Criteria and Standards, and accomplishing the goals pertaining to sustainable UN goal. Coordinating body for

monitoring and implementation of the Programme and the Action Plan, was established, comprising 22 representatives from the Ministries and the Association of Local Government Units.

At the same time, Working Sectoral Group for Regional and Local Development is obliged to carry out tasks at expert level, related to formulating and implementing the national sectoral policies, including those related to the EU integration and the donors' aid generally, as well as the IPA Programme.

Most of the funds the municipalities receive in support of local and regional development are allocated from the State Budget via the line ministries, being also extended donations from different sources, resources from the IPA Funds and credit lines for financing infrastructure projects. Therefore, municipalities are not always informed about the opportunities for financing capital infrastructure projects, while at the same time, due to the limited staff capacities, they are not able to provide funds for implementing capital investments in the municipalities. Working Group has been set up, comprising representatives from Ministry of Justice, Ministry of Local Government, Ministry of Finance, Bureau for Regional Development, Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Ministry of Political System and Community Relations, Ministry of Information Society and Administration and Association of the Local Government Units, all to the end of preparing legal solution for establishment of Agency for Regional and Local Development. Thus, municipalities will be given the opportunity for providing additional financial resources from different sources for financing capital investments, which will contribute to improving both local and regional development. As a result of this Agency, funds, which would be provided from different sources, being intended for regional and local development, would be distributed as per both the set criteria and the needs of the municipalities and the region. Operations of the Agency will be coordinated by the Ministry of Local Government. With USAID technical assistance, local expert was engaged and comparative analysis was prepared, incorporating experience from countries with such type of the institutions, as well as draft models for transforming the Regional Development Bureau in the Regional and Local Development Agency. In the period to come, Information will be submitted to the Government, whereby it is planned for a debate to be held with the stakeholders, upon which a decision will be made, pertaining to the model for transforming the Bureau for Regional Development.

In addition to the support as regards the transfer of competences for collection of part of the public revenues, as well as the Central Budget transfers, support to building municipal capacities is also implemented through projects of the central government funded by international financial institutions.

In 2023, implementation of the Municipal Services Improvement Project (MSIP) will be finalised, which is implemented by Ministry of Finance with WB and EC support, which was launched a decade ago, with a total value of over EUR 100 million, being aimed at improving the municipal services through loans and grants to municipalities for implementation of capital projects related to water supply, sewerage and drainage of waste water, energy efficiency (street lighting, insulation of municipal facilities, etc.), local road infrastructure (modernisation and reconstruction of streets and roads), utility services (purchase of vehicles for public utility enterprises), as well as other municipal services and competences (construction of kindergartens, green markets, infrastructure in industrial zones, etc.).

Under the Local Roads Connectivity Project, which is part of the ongoing Country Partnership Framework, implemented by the Ministry of Transport and Communications, EUR 70 million is intended to be disbursed to all 80 municipalities and the City of Skopje for construction and rehabilitation of local roads and streets, as well as other road infrastructure in local government units. Such direct support ranging from EUR 500,000 up to EUR 2 million per municipality (depending on the project they apply for) provides for improved local infrastructure in the municipalities.

In the coming period, Public Sector Energy Efficiency Project will continue to be implemented via the Ministry of Finance with World Bank support under Loan Agreement in the total amount of EUR 25 million. Public Sector Energy Efficiency Project will be implemented by the MSIP Project Implementation Unit. Main objective of this Project is reducing energy consumption in the public sector, at the same time improving the energy class and the quality of the public buildings and the public lighting. All local government units are eligible to use the funds under this component. Amount of funds per municipality can vary from EUR 50,000 to EUR 750,000 and is dependent on the municipal borrowing capacity and the estimated investment value of the proposed municipal project. By signing a sub-loan agreement with the Ministry of Finance, 80% of the loan funds is allocated to the municipality as on-lending, with the remaining 20% being allocated as a grant. Moreover, within the funds under this Project, the Ministry of Finance also covers the expenses for preparation of Energy Audit and technical design.

Another major project implemented in the past ten years, aimed at improvement of the municipal infrastructure, is Water Supply and Wastewater Collection Project, funded by the European Investment Bank (EIB) and implemented by the Ministry of Transport and Communications. Funds in the amount of EUR 50 million are provided to all municipalities, supporting the construction of better water supply infrastructure and wastewater treatment plants. This Project will continue in future as well through the Ministry of Environment and Physical Planning, with additional funds, amounting to EUR 50 million as support for enhancing the municipal water infrastructure.

What is also envisaged in the coming medium-term period is introducing fiscal decentralisation monitoring indicators, increasing local tax collection efficiency, improving the effectiveness and profitability of public enterprises and the municipalities, as well as increasing the transparency and the accountability of the municipalities. In cooperation with foreign donors, activities are undertaken in order to create municipal "sustainable development index", harmonised with the sustainable development objectives, to serve as a local development policy instrument, thus assisting the authorities at all levels, in planning and distributing funds for development, all to the end of promoting equal social and economic growth, as well as easing the monitoring of the development progress.

Strengthening the financial discipline of municipalities, arrears repayment and cost-effective operations will be the priorities in the coming period, whereby measures will be undertaken for the purpose of planning the revenues and expenditures of the municipalities in a realistic manner, rationalising the operations and reducing the unnecessary expenditures, regular servicing of arrears, strengthened financial discipline, procedures on declaring financial instability and analysis of the existing arrears of both the municipalities and the public enterprises.

For the purpose of increased transparency and accountability and strengthening the fiscal decentralisation, government oversight will be enhanced, in particular by the Department for Public Sector Financial Inspection in terms of the Law on Reporting and Recording Liabilities and reporting non-compliance with the Law on Financial Discipline, measures will be adopted with respect to increased transparency at the municipalities by announcing the financial reports in a transparent and understandable manner, and activities will be undertaken for the purpose of strengthened accountability when using budget funds.

Public consultations and discussions with ALGUs and the other stakeholders on reform proposals have already commenced, in coordination with the Working Group entrusted with the continuation of the decentralisation process, established by the Government, with the Ministry of Political System, Ministry of Finance, Ministry of Local Government and ALGUs as its members. One of the government priorities is continuation of the decentralisation process to the end of greater democratisation, improved public services and intensified local development in the interest of the citizens.

Table 9. Medium-Term Projection of Local Government Budget (Denar million)

	2021*	2022*	2023*	2024*	2025*	2026*	2027*	2028*
Total revenues	38,366	38,716	49,902	52,741	53,276	55,282	58,214	61,087
Tax revenues	11,280	10,716	12,454	12,780	13,110	13,450	13,770	14,100
Non-tax income	1,280	1,419	2,644	2,755	2,855	2,960	3,080	3,180
Capital income	1,744	1,784	2,310	2,310	2,360	2,420	2,470	2,520
Transfers	23,386	24,105	30,817	32,848	32,903	34,404	36,846	39,239
Donations	676	692	1,676	2,048	2,048	2,048	2,048	2,048
Total expenses	38,527	38,911	49,902	52,741	53,276	55,282	58,214	61,087
Wages and allowances	18,847	19,899	22,078	23,740	24,040	24,640	25,340	26,240
Goods and services	8,145	9,900	12,081	12,250	12,450	13,000	13,850	14,400
Interest payments	37	37	63	60	60	60	60	60
Subsidies and transfers	2,654	2,857	2,878	3,280	3,280	3,280	3,480	3,580
Social transfers	55	67	71	80	80	80	80	80
Capital expenditure	8,789	6,151	12,731	13,331	13,366	14,222	15,404	16,727
Balance	-161	-195	0	0	0	0	0	0

Source: Projections of the Ministry of Finance (*)

2.6 Public Enterprises and State-Owned Companies

Operations of public enterprises and state-owned companies is regulated in the Law on Public Enterprises, the Company Law, as well as other laws defining the operations in the specific area (Law on Energy, Law on Railway System, Law on Public Roads, etc.)

Government of the Republic of North Macedonia has founded 15 public enterprises, being a single shareholder/member in 15 companies. These entities employ around 15.4 thousand workers, accounting for a significant part of the Macedonian economy.

Total revenues of public enterprises and state-owned companies in 2022, in line with the data from the quarterly and the annual reports, amounted to Denar 78.8 billion, total expenditures were executed in the amount of Denar 71.6 billion, resulting in gross profit to approximately Denar 7.2 billion in 2022 (Table 10).

Financial indicators from the operations of public enterprises and companies are shown on accrual basis, in line with the stipulated accounting methodology, differing from the one of budget users showing the financial data on

cash basis, thereby taking into account that these entities keep accounting records, prepare and submit the annual account and the financial reports in line with the Company Law and the adopted international accounting standards and the International Financial Reporting Standards, rather than pursuant to the Law on Budget Institutions' Accounting. The loss presented at certain public enterprises and state-owned companies is a result of the calculated depreciation of fixed assets, which is basically an accrual expense and is presented as an expense of public enterprises. Positive performance recorded in the overall operations of public enterprises and state-owned companies in 2022, will be basis for further improvement of financial performance of these enterprises, along with the efficient improvement of public services they provide to the citizens and the business sector.

Table 10. Main financial indicators for public enterprises and state-owned companies (Denar million)

	Public enterprise / State-owned companies	total revenues	total expenditures	financial result	total revenues	total expenditures	financial result	revenues (plan)	expenditures (plan)	financial result
in million of denars										
		2021			2022			plan 2023		
1	Power plants of North Macedonia ESM, JSC - Skopje	15,800.9	16,854.9	-1,054.0	34,093.1	31,578.9	2,514.2	25,840.4	35,008.2	-9,167.8
2	Electricity Transmission System Operator of the Republic of North Macedonia, a JSC for electricity transmission and power system control, in state ownership - Skopje	8,130.3	7,802.6	327.7	12,395.2	11,004.7	1,390.5	11,283.5	11,283.5	0.0
3	Public enterprise for state roads - Skopje	9,017.3	7,429.1	1,588.2	13,065.0	9,391.5	3,673.5	11,193.0	3,082.0	8,111.0
4	Railways of the Republic of North Macedonia Transport, JSC - Skopje	1,428.5	1,689.6	-261.1	1,648.6	1,872.0	-223.4	1,351.6	1,910.3	-558.7
5	Public enterprise for managing forests „National Forests“ - Skopje	1,458.4	1,409.8	48.6	1,743.3	1,692.7	50.6	2,095.1	1,923.8	171.2
6	State owned JSC for postal traffic "Post of North Macedonia" - Skopje	1,128.4	1,304.2	-175.8	1,199.6	1,429.4	-229.9	1,420.6	1,533.5	-112.8
7	Public enterprise for railway infrastructure Railways of Republic of North Macedonia - Skopje	869.6	1,169.0	-299.4	1,192.0	1,334.5	-142.5	1,045.1	1,624.0	-578.8
8	Public enterprise for the maintenance and protection of national and regional roads - Skopje	1,538.9	1,628.7	-89.8	1,615.9	1,555.2	60.7	1,895.0	1,880.0	15.0
9	Public enterprise "National Television" - Skopje	979.6	985.4	-5.9	1,104.8	1,064.5	40.3	1,172.5	1,172.5	0.0
10	JSC for construction and management of residential and commercial property significant to the country - Skopje	663.6	652.6	11.0	794.4	785.3	9.1	855.6	853.7	1.9
11	Air Navigation service provider of the Republic of North Macedonia, JSC „M-NAV“ - Skopje	830.2	792.8	37.5	1,307.3	1,170.4	137.0	1,228.5	1,221.1	7.4
12	JSC Water Economy of Republic of North Macedonia	685.6	638.6	47.0	825.4	825.9	-0.5	885.3	883.2	2.1
13	Public enterprise for water supply "Strezevo" - Bitola	219.1	483.9	-264.8	272.5	491.3	-218.8	271.7	464.9	-193.2
14	JSC "TEC Negotino" - Negotino	492.9	463.8	29.1	5,476.6	5,394.3	82.3	13,283.2	13,283.2	0.0
15	JSC "State lottery of North Macedonia" - Skopje	633.7	266.4	367.3	837.1	361.7	475.4	1,676.1	1,099.7	576.4
16	Public enterprise Hydrosystem "Zletovica" - Probištip	21.2	163.7	-142.5	42.5	164.8	-122.3	46.0	175.1	-129.2
17	Public enterprise "National Broadcasting" - Skopje	247.7	227.4	20.3	196.7	313.5	-116.8	243.6	243.6	0.0
18	JSC for airport services "Airports of the Republic of North Macedonia" - Skopje	10.3	110.6	-100.3	58.9	110.3	-51.3	14.0	109.3	-95.3
19	„Boris Trajkovski“, state owned limited liability company established by one person - Skopje	125.8	161.9	-36.1	222.5	211.8	10.7	166.9	233.0	-66.1
20	Public enterprise for water supply "Lisice" - Veles	45.3	84.3	-39.0	47.6	85.9	-38.3	47.4	87.9	-40.5
21	JSC for management of state - owned business premises - Skopje	151.4	143.5	7.9	92.6	85.2	7.4	62.7	79.6	-17.0
22	Public enterprise "Official Gazette of Republic of North Macedonia" - Skopje	98.7	73.1	25.7	96.3	78.9	17.3	99.1	94.1	5.1
23	Public enterprise for water supply "Studenica" - Kicevo	72.9	60.5	12.4	74.4	67.7	6.7	79.2	79.2	0.0
24	Media information agency - Skopje, a state owned JSC	56.3	57.1	-0.8	76.9	66.5	10.4	64.0	63.9	0.1
25	Public enterprise „JASEN“ - Skopje	45.6	43.6	2.0	48.9	47.9	0.9	48.9	48.7	0.2
26	Public enterprise for management of pastures - Skopje	25.6	25.7	-0.1	43.1	26.7	16.4	36.2	33.7	2.6
27	JSC „Nomagas“ - Skopje	0.0	0.0	0.0	147.6	211.1	-63.5	0.0	0.0	0.0
28	JSC „National energy resources“ - Skopje	2,746.1	24.0	2,722.2	0.2	16.2	-16.0	0.0	0.0	0.0
29	Public enterprise „Agro - Berza“ - Skopje	9.0	11.3	-2.4	14.1	11.2	2.9	15.7	15.7	0.0
30	Public enterprise „Collector system“ - Skopje	0.0	0.0	0.0	99.3	141.4	-42.1	101.4	128.5	-27.1
31	State owned limited liability company established by one person „Naflovod“ - Skopje	7.5	7.5	0.0	0.0	6.3	-6.3	8.3	8.3	0.0
	ВКУПНО:	47,540	44,766	2,775	78,832	71,598	7,235	76,530	78,624	-2,094

Source: Annual reports and Financial plans of public enterprises and state-owned trading companies

Pursuant to the amendments to the Law on Public Enterprises, for the the purpose of increasing transparency, public enterprises are obliged to publish the annual and the quarterly reports on their websites, thus providing for timely and transparent monitoring of financial operations of these entities, at the same time providing opportunity for more realistic prediction of the fiscal risk in this field and timely reaction and undertaking of appropriate measures. As of 2020, on its website, Ministry of Finance publishes consolidated quarterly data on the collected revenues and executed expenditures at the level of public enterprise/state owned-company.

Public enterprises and state-owned companies are obliged, pursuant to the Law on Reporting and Recording of Liabilities, to report, on monthly basis, undue liabilities and arrears in the Electronic System for Reporting and Recording Liabilities, being kept by the Ministry of Finance. On the basis of the recorded data on reported liabilities, Ministry of Finance publishes, in continuity and on quarterly basis, summary reports on its website, thus additionally contributing to strengthened and increased transparency.

Budget revenues on the basis of payment of dividend by companies, wherein the state is full or partial shareholder and the payment of surplus of funds from the operations of state-owned public enterprises amounted to total of Denar 1,072,071,058 at the end of 2022.

Pursuant to the Company Law, state-owned joint stock companies are obliged to pay in the operating profit in the Budget, while public enterprises, according to the Law on Public Enterprises, are obliged to pay the surplus of income generated throughout their operations in the Budget of the Republic of North Macedonia, in case it is not covered by the public enterprise's investments under the investment programme prepared in accordance with the detailed financial plan. Thereby, the founder of the public enterprise may, as regards the surplus of income generated from the public enterprise's operations paid in the Budget of the Republic of North Macedonia, reach a decision to cover the losses of other public enterprise, to deposit the surplus of income on earmarked account intended for financial support and development of a legal entity founded by the Republic of North Macedonia for the purpose of performing an activity of public interest or to cover budget liabilities towards the Funds.

Although the annual Law on Execution of the Budget of the Republic of North Macedonia does not directly cover public enterprises and state-owned companies, they are transferred funds, via their line ministries, as budget support for the purpose of implementing certain infrastructure projects, given that they perform activities of public interest, i.e. they are entities performing activities essential for the Macedonian economy.

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.

Thus, and for the purpose of more efficient management of the adverse consequences triggered by the health and the energy crisis in 2021, public enterprises and state-owned companies were obliged to revise the 2022 and 2023 financial plans, all to the end of reducing the non-productive expenditures by 15%.

At the same, time, more specific measures and activities are also planned in support of financial consolidation of these entities in the period to come, by introducing medium-term budget planning thereof. (Table 11)

Table 7. Main financial indicators for planned operations of public enterprises and state-owned companies (Denar billion) for the period 2023-2028

PROJECTED TOTAL REVENUES AND EXPENDITURES AT PUBLIC ENTERPRISES AND JSC in the period 2023-2023 (Denar billion)							
No.		2023	2024	2025	2026	2027	2028
1	TOTAL REVENUES	76,5	78,4	80,8	83,5	86,2	89,1
2	TOTAL EXPENDITURES	78,6	74,3	76,5	78,8	81,1	83,5
3	FINANCIAL PERFORMANCE	-2,1	4,1	4,3	4,7	5,1	5,6

3. Other Aspects and Improvement of Public Financial Management

3.1- 2022-2025 Public Financial Management Reform Programme

On 21st June 2022, Government of the Republic of North Macedonia adopted the 2022-2025 PFM Reform Programme and the 2022 Action Programme for Implementation of PFM Reform Programme.

2022-2025 Public Financial Management Reform Programme is a strategic document for development of the public financial management system, pursuing the already commenced reforms in the previous four-year period. It is an ambitious effort covering all aspects of public financial management: economic analysis, macroeconomic and fiscal framework, revenue mobilisation and collection, budget planning, public investment management, effective instruments under the Growth Acceleration Plan, public procurement, including PPP, establishment of integrated financial management information system (IFMIS), Public Finance Academy, budget accounting, public internal financial control, external control and parliamentary oversight and PFM at local level.

Public finance reforms aimed at improved fiscal framework, strengthened process of public finance planning, execution and reporting, increased revenue collection, strengthened public procurement system and improved internal and external control by increasing transparency and accountability in operations, have been identified as one of the key goals of the Government, which is to ensure accelerated and sustainable economic growth, higher living standard and better quality of life for the citizens. All this encompasses maintaining stable budget in the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public administration based on digitalisation.

The Programme is based on the SMART public finance concept or literally translated “smart” finances based on clear strategy, which will be maintainable, accountable, reform-oriented and transparent, under which public finance reforms will be implemented in terms of longer-term and better quality planning of the budget programmes and the budgets, it will be continuous, i.e. maintainable, and will be continuously aimed at improving the transparency. This will mean aiming at more just model of public finances from the point of view of revenues, expenditures and the manner of financing, i.e. in other words, how the funds are collected in the Budget and how citizens’ money is spent, putting the focus on re-orienting the traditional budgeting to performance-based budgeting and introducing multi-annual budget framework. One of the main pillars of the SMART system has to be transparency and accountability of public finances, considering that transparency has been the “key word” in the politics in recent years. Its real value for public finances is that it is the highest level of fiscal control, when you provide information to the public in a simple and understandable manner and the public judges and decides whether it is a right or justified or legal decision.

Programme is implemented via annual action plans, whereby monitoring is carried out on the basis of semi-annual and annual reports. Implementation and monitoring of the new 2022-2025 Programme is based upon sectoral policy dialogue with all stakeholders, as set under the previous Programme. The objective of the dialogue is to ensure joint actions as regards the priorities and the policies in the area of public finance management, establishing a synergy and coordination among different initiatives, as well as that budget funds and all other available resources, including donor funds, are used in an appropriate and transparent manner.

Organic Budget Law as adopted by the Parliament in September 2022, under which the public financial management system in the Republic of North Macedonia is defined is aimed at accomplishing the objectives under the Programme.

This Law regulates the procedure for preparation, adoption, execution of the Budget of the Republic of North Macedonia and the budgets of the local government units and the City of Skopje, as well as the reporting on their execution. This Law regulates the fiscal rules and the fiscal principles, the establishment of the Fiscal Council, the medium-term budget planning, the management of state and municipal funds, as well as the monitoring of financial indicators of public enterprises and companies established by the state and the municipalities, as well as companies established by such public enterprises and companies, and the financial responsibility and the basis for establishment of IFMIS.

Improvement of the public financial management and strengthening the medium-term budget planning in the next 5 years is one of the top priorities of the Government of the Republic of North Macedonia as part of the EU accession process.

Thereby, as regards the process of preparing the Fiscal Strategy, it is envisaged for the existing timeframe to be shifted, as well as for its structure and contents to be improved.

The Budget will be presented more clearly through plenty of well-structured information, and it will be divided into general, special and development sections.

At the same time, the Law includes provisions for introducing numerical fiscal rules, designed in a way, in which they will comply with the EU fiscal rules, thus making the fiscal policy more predictable and more accountable.

The Government may apply the escape clauses with respect to the set fiscal rules in case of occurrence of exceptional circumstances.

In the coming period, Ministry of Finance, in cooperation with the World Bank, as well as through the EU IPA Twinning Project “Strengthening Budget Planning, Execution and Internal Control Functions”, will continue to work on preparing by-laws, guidelines, manuals, etc., aimed at enforcing the new Organic Budget Law, further improvements of the public financial management system, as well as developing a detailed plan for all working process in the Ministry of Finance.

Furthermore, in the coming period, the new Organic Budget Law envisages introduction of IFMIS – Integrated Financial Management Information System, which will provide for integration and connection with all budget users and systems of the Public Revenue Office, the Customs Administration and other institutions, for the purpose of providing more efficient public financial management. By implementing IFMIS, public financial systems will be full compatible and interoperable, while using them in accordance with the Public Financial Management Strategy will ensure availability of the systems and continuous exchange of data 24 hours per day throughout the year.

3.2. Report on the Recorded Liabilities pursuant to the Law on Reporting and Recording the Liabilities

For the purpose of providing and maintaining transparency and accountability and strengthening the accountability when managing public funds, the Law on Reporting and Recording Liabilities regulates the reporting, recording and publication of the data on reported undue liabilities and arrears.

Such legal solution regulates the recording of liabilities on monthly basis in the electronic system by the general government bodies, local government units and institutions performing activities in the field of culture, education, health, child care, social protection, as well as in other activities of public interest determined by Law, established by the Republic of North Macedonia or by the local government units, public enterprises, state-owned companies and other legal entities founded by the Republic of North Macedonia or the local government units.

For the purpose of informing the public and greater transparency, and on the basis of the recorded data on reported liabilities, reporting is carried out on monthly basis through the Electronic System for Reporting and Recording Liabilities, by the 10th day in the month for the previous month at the latest, and Ministry of Finance, publishes, on quarterly basis, summary reports on its website.

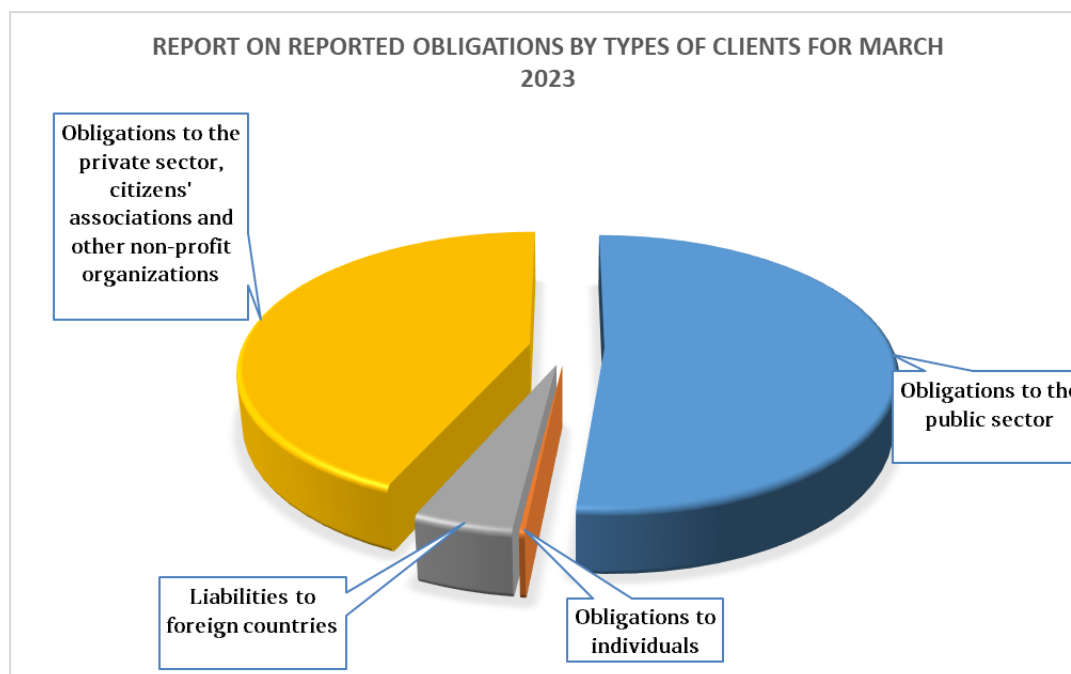
On the basis of the data recorded in the Electronic System for Reporting and Recording Liabilities, as for the data reported in March 2023, the Report on Reported Liabilities by groups of entities is shown in Table 12.

Table 12. Report on Reported Liabilities by group of entities for 2023 March (Denar million)

No.	Group of Entities	Arrears current year(T)*	Undue liabilities T	Undue liabilities current year+1 (T+1)**	Undue liabilities current year (T+2)**
1	First-line budget users	607	1.010	789	2
2	Second-line budget users	271	104	11	2
3	Municipalities	3,955	699	614	471
4	Spending units (local) - second-line budget users	401	77	3	0
5	Public enterprises and state-owned companies	10,674	5,137	1,867	6,681
6	Municipal public enterprises	4,443	562	174	26
7	Public health institutions	5,636	2,225	0	0
8	Planning regions	34	2	0	1
9	Regulatory authorities	4	39	4	0
10	Other entities	1,206	1,677	1,774	1,874
	Total:	27,232	11,532	5,237	9,058

Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities

Chart 14. Report on Reported Liabilities by type of entities for March 2023



4. Use of EU Pre-Accession Assistance

Republic of North Macedonia, as a candidate country for EU membership, is available funds under the EU Pre-Accession Assistance (IPA) Instrument. IPA funds have been planned under the following financial perspectives: IPA 2007 - 2013 Financial Perspective (IPA 1), IPA 2014 - 2020 Financial Perspective (IPA 2) and 2021-2027 (IPA 3) Financial Perspective.

This section of the document presents only the part of EU Pre-Accession Assistance implemented under the decentralised/indirect management method. IPA decentralised/indirect management method is a management method within which the European Commission (EC) entrusts tasks for implementation of certain IPA programmes to the accredited structure in the Republic of North Macedonia, such as tender procedures, contracting, project monitoring and execution of payments. On the other hand, when it is a matter of centralised management, these are responsibilities of the EC, via the Delegation of the European Union to North Macedonia.

Funds for national co-financing intended for projects implemented under the decentralised/indirect management are planned within the budget of the Ministry of Finance, organisational code 09002 - Functions of the State, except for the national co-financing necessary for financing the IPARD projects, which is planned within the budget of the Agency for Financial Support in Agriculture and Rural Development, organisational code 14004, as well as the national co-financing for payment of financial contribution to EC for participation in the Union Programmes, which is planned in the line ministries.

4.1 4.1 IPA 1 - 2007-2013 Financial Perspective

Within IPA 1 2007 - 2013 Financial Perspective, Republic of North Macedonia has available, through the five IPA Components, funds in the amount of EUR 614 million (Denar 37.8 billion), around EUR 467 million (Denar 28.7 billion) out of which or around 76% of the total allocations are employed through the decentralised management method (through structures accredited by the EC services for indirect management of the European funds).

4.2 IPA 2 - 2014-2020 Financial Perspective

Under IPA 2 2014 - 2020 Financial Perspective, Republic of North Macedonia has EUR 664 million available. With respect to the manner of implementation, around 50% of the total allocations under IPA 2 will be earmarked for projects planned to be implemented through indirect management system, i.e. through accredited IPA structures.

Awarded assistance will be used for financing projects in the following areas: justice and home affairs, road and railway infrastructure, environment protection, education, employment, promotion of gender equality, human resources development and agriculture and rural development.

IPA funds under indirect management are implemented through the following annual and multi-annual programmes:

- 2014 Action Programme for financing projects in the following areas: Judiciary, Disaster Recovery System and ensuring business continuity, developing capacities for on-site inspections, entry tickets for the Union Programmes, local and regional competitiveness, by focusing on tourism and support for the EU integration (SEA) .
- 2015 Action Programme, 2016 Action Programme, 2018 Action Programme and 2020 Action Programme for financing the entry tickets for EU Programmes;
- 2017 Action Programme for financing projects in the following areas: labour and education, entry ticket for the Union Programmes;
- Multi-Annual Sectoral Operational Programme of the Republic of North Macedonia for Environment and Climate Action 2014 – 2020;
- IPARD 2 Programme.

Under the 2013 Action Programme, EUR 20 million was made available to the Republic of North Macedonia, as IPA funds, which Programme was fully implemented with payments made in 2022.

Financing of projects in the field of road and rail transport, as well as projects for construction of waste water treatment plants, sewerage networks and waste management and climate changes is envisaged within the Multi-Annual Sectoral Operational Programme of the Republic of North Macedonia for Environment, Climate Action and Transport.

In the period 2014-2020, as regards the environment and climate activities sector, IPA funds in the amount of EUR 114.95 million was allocated, whereby, IPA funds amounting to EUR 110.91 million was allocated for the Transport sector, EUR 39.9 million will be provided as national co-financing from the Budget of the Republic of North Macedonia and EUR 339.7 million will be provided partly via WBIF grant amounting to approximately EUR 149 million, while the remaining amount will be provided via loans from international financial institutions. In line with the signed Financial Agreement for this Programme, deadline for concluding and completing the respective contracts thereunder is 31st December 2026.

Projects in the field of labour and education are financed within 2017 Action Programme, the aim of which is to reduce high unemployment rate, increase share on the labour market, in particular the one of young people and women, increase the access to quality education and training, improve the results and the skills and establish a modern and flexible social protection system. In order to achieve the general objective, several projects are envisaged in the following areas: Institutional strengthening of the capacities for sustainable sectoral reforms; improving the educational and training system; promoting the skill development, employment and working conditions; social protection, social inclusion and equal share on the labour market and the society. As of 20th November 2021 inclusive, i.e. the deadline for contract conclusion in line with the signed Financial Agreement for 2017 Action Programme on Education, Employment and Social Policy, 10 (ten) contracts were concluded, amounting to total of EUR 12.26 million, EUR 11.67 million out of which as IPA funds.

IPARD 2 Programme supports projects that will provide for attaining EU standards introduced in the field of agricultural production, food processing and rural development. In the period 2014-2020, total IPA funds in the amount of EUR 60 million are made available to the Republic of North Macedonia under this Programme. 2014 - 2020 IPARD Programme implementation is launched with 4 measures (Investments in physical assets of agricultural holdings, Investments in physical assets concerning processing and marketing of agricultural and fishery products, Farm diversification and business development and Technical assistance for Programme implementation), while preparation for accreditation of one more measure (Investments in rural public infrastructure) is commenced. By the end pf 2022, 2363 contracts have been concluded out of eight public calls in total.

4.3 4.3 IPA 1 - 2021-2027 Financial Perspective

New 2021-2027 financial package is expected to be increased by 6% compared to the previous IPA 2 package. The focus under IPA 3 will be placed on several Investment Funds via grants and loans and greater convergence. In addition, under IPA 3, EU focus is placed on the cooperation with EIB and EBRD, as well as other

international financial institutions, which will offer so-called “leverage” loans. IPA 3 should contribute to implementing the „Economic and Investment Plan for Western Balkans“ adopted at the Summit in Zagreb in May 2020, aimed at spurring medium-term recovery, job creation and intensifying trade between Western Balkan countries and EU Member States, via funding major infrastructure projects in the field of transport, environment, digitalisation and energy, having regional importance and enhancing the regional connectivity, as well as mature projects to be implemented in the next 4 years.

IPA 3 funds will be absorbed at national and regional level. Funds deployed under the Instrument for Pre-Accession Assistance IPA III for the 2021-2027 period, are envisaged to be used through 5 so-called “windows” as follows:

- Window 1: Rule of law, fundamental rights and democracy
- Window 2: Rule of law, acquis alignment, good neighbourly relations and strategic communication
- Window 3: Green agenda and sustainable connectivity
- Window 4: Competitiveness and inclusive growth
- Window 5: Territorial and cross-border cooperation

At national level, the available funds will range between EUR 80-100 million on annual basis. Under the national package, focus will remain on the start of the negotiations, adaptation of the administration to the intensive reform pace and the coordinative mechanisms, which should boost the negotiating process, in line with the new methodology of accession negotiations, grouping the negotiation chapters into clusters and aligning the use of IPA funds for supporting the process of negotiations and the structural reforms in the whole society. Amount of financial resources at national level will depend on the readiness of the administration to prepare relevant and mature projects arising from the needs of the EU integration process, political commitment to implementing these projects, since under IPA 3, the assistance could be modulated upwards or downwards among the beneficiary countries (Western Balkan countries and Turkey) within the so-called fair share.

At regional level, majority of the announced IPA 3 funds will be made available through the regional programmes, intended for providing support to the following sectors - transport, environment, energy, social support and digitisation. Therefore, it will be important for these sectors to implement their long-term strategies defining the national priorities, as well as the trends arising from the European agenda, such as digitisation, broadband and fast Internet, energy projects and transformation towards decarbonisation, renewable energy sources, gas infrastructure, circular economy, clean environment, private business guarantees and traffic connectivity, etc. Our country will still have available the funds under the Western Balkans Investment Framework upon the principle of so-called blending of grants and loans. Mature projects ready for implementation will have a priority to be financed. Thereby, the new Fiscal Strategy will be more eased as regards the borrowing of capital from international financial institutions.

Within the new Instrument for Pre-Accession Assistance (IPA 3), in line with the Financial Framework Partnership Agreement 2021 - 2027, it is necessary to introduce a new system for indirect management of IPA funds. As regards the 2022 Annual Action Programme, the National Authorising Officer submitted the request for awarding tasks for executing the Budget to EC. Under this Programme, via the indirect management system, projects are to be implemented, pertaining to the following areas:

- EU for wastewater treatment plants modernisation

Within 2021 - 2027 IPARD Programme, in line therewith, Republic of North Macedonia is made available total of EUR 97 million as IPA funds, with a national co-financing in the amount of EUR 31,073,333. The first public call is expected to be announced at the end of 2023 or the beginning of 2024.

List of projects that are planned to be implemented in the period from 2024-2028:

- Multi-year programme for transport;
- Contract for construction works and contract for services: *Construction of road section Gradsko - interchange Drenovo as part of road corridor X-d; Supervision of the construction of the road section Gradsko - interchange Drenovo as part of the road corridor X-d*, the period of implementation of this agreement should end in the third quarter of 2025 .
- Contract for construction works and contract for services: Rehabilitation of state road A2, section Kumanovo - Stracin (phase 1); Supervision of the rehabilitation of state road A2, section Kumanovo - Stracin (phase 1), the implementation period of this contract should end in the third quarter of 2024.
- Contract for construction works and contract for services: Construction of a railway section from Kriva Palanka - Border with the Republic of Bulgaria; Supervision of the construction of the railway section from Kriva Palanka - Border with the Republic of Bulgaria; it is planned for this contract to be concluded in the first quarter of 2024 with an

implementation period of 72 months.

- Contract for services: Preparation of project documentation for multi-modal junction Trubarevo, this contract was concluded in the first quarter of 2023, and it has an implementation period of 18 months.
 - Service contract: Technical audit for the main project Construction of road section Gradsko - interchange Drenovo as part of road corridor X-d; the contract should be concluded in the fourth quarter of 2023 with an implementation period of 34 months.
 - Service contract: Technical audit for the main project Construction of a railway section from Kriva Palanka to the border with the Republic of Bulgaria; the contract should be concluded in the second quarter of 2024, and it is planned to be implemented over a period of 48 months.
 - Service contract: Development of an implementation plan according to the National Transport Strategy 2018-2030 with a system, tools, and capacity to monitor it; the contract should be concluded in the first quarter of 2024 with an implementation period of 12 months.
 - Agreement for services: Sustainable Urban Transport Plan of the City of Skopje; the agreement is planned to be concluded in the first quarter of 2024 with an implementation period of 24 months.
 - Contract for services: Preparation of the National Aviation Strategy Aviation 2021-2030; the contract is planned to be concluded in the fourth quarter of 2023, and it has an implementation period of 9 months.
- Multi-year programme for environment and climate actions;
- Service Agreement: Implementation and planning for approximation in the priority areas of the environment; the project is planned to be concluded in the third quarter of 2024, and it has an implementation period of 24 months.
 - Service Agreement: Support of the IPA-OP structure in project planning and financial management in the environment sector; the project is planned to be concluded in the third quarter of 2023 with an implementation period of 30 months.
 - Service Agreement: Development and implementation of a public awareness campaign for the environment; the project is planned to be concluded in the first quarter of 2025 with an implementation period of 18 months.
 - Contract for services: Improvement of capacities for NATURA 2000 and CITES; the contract was concluded in 2022 with an implementation period of 30 months.
 - Service contract: Improved implementation of the EU Floods Directive by harmonizing national legislation and preparing flood risk management plans; the contract is scheduled to be concluded in the third quarter of 2023 with an implementation period of 30 months.
 - Service contract: Development and implementation of river basin management plans for all river basins (Vardar River, Crn Drim, Strumica) within the framework of the Water Framework Directive with the implementation of measures; the contract is planned to be concluded in the second quarter of 2024 with an implementation period of 24 months.
 - Service Agreement: Implementation of priority activities developed within the framework of a long-term strategy to limit the greenhouse gas emissions and further transposition of climate action legislation; the agreement should be concluded in the fourth quarter of 2023 with an implementation period of 30 months.
 - Contract for services: Support for the implementation of regional waste management systems in the East and North-East regions; the contract is to be concluded in the fourth quarter of 2023 with an implementation period of 24 months.
 - Service contract: Preparation and revision of national waste planning documents; the contract is planned to be concluded in the third quarter of 2023 with an implementation period of 18 months.
 - Service Agreement - Support in the implementation of waste management legislation and an extended producer responsibility scheme, the implementation of this project started in the fourth quarter of 2022 and will last for 27 months.
 - Service Agreement: Further support in the implementation of reforms in the water sector; the agreement is planned to be concluded in the first quarter of 2024 with an implementation period of 30 months.
 - Service contract: Support in the implementation of air quality directives; the contract is planned to be concluded in the first quarter of 2024 with an implementation period of 24 months.
 - Contract for services: Support in the implementation of horizontal legislation; the contract is planned to be concluded in the fourth quarter of 2023 with an implementation period of 24 months.
 - Contract for services: Creation of strategic noise maps and action plans with programmes of measures; the contract is planned to be concluded in the fourth quarter of 2023 with an implementation period of 24 months.
 - Twinning Agreement: Strengthening the capacity to implement environmental and climate change legislation; the agreement is planned to be concluded in the first quarter of 2024 with an implementation period of 27 months.

- Procurement Agreement: Procurement of IT and other specific equipment for environmental monitoring and information system; the contract is planned to be concluded in the third quarter of 2023 with an implementation period of 24 months.
- Procurement Agreement: Procurement of office and technical equipment and ICT software for the operational structure of the MoEPP for the implementation of SOPECA; the contract is scheduled to be concluded in the fourth quarter of 2023 with an implementation period of 18 months.
- Procurement Agreement: Procurement of specific equipment for water monitoring information system, the contract is planned to be concluded in the fourth quarter of 2023 with an implementation period of 24 months.
- Procurement Agreement: Procurement of IT and other specific equipment for the noise monitoring information system; the contract is scheduled to be concluded in the fourth quarter of 2023 with an implementation period of 24 months.
- Twinning Agreement: Further strengthening the capacities for effective implementation of the acquis in the field of industrial pollution; the agreement was concluded in the first quarter of 2023 with an implementation period of 20 months.
- Contract for construction works and contract for services: Rehabilitation and expansion of the sewer network in the municipality of Kichevo and Supervision of the contract for the expansion of the sewer network in the municipality of Kichevo; the contract was concluded in the first quarter of 2023 with an implementation period of 39 months.
- Contract for construction works and contract for services; Construction of a sewage treatment plant in the Municipality of Bitola and Rehabilitation and upgrading the sewage network in the Municipality of Bitola; Supervision of the contract for the construction of a sewage treatment plant and rehabilitation and upgrading the sewage network in the Municipality of Bitola; the contract is planned to be concluded in the third quarter of 2023 with an implementation period of 39 months.
- Contract for construction works and contract for services: Construction of a wastewater treatment plant in the Municipality of Tetovo and Extension of the sewage network in the Municipality of Tetovo, Supervision of a contract for the construction of a wastewater treatment plant and rehabilitation and upgrading of the sewage network in the Municipality of Tetovo; the contract is planned to be concluded in the fourth quarter of 2023 with an implementation period of 39 months.
- Service contract: Support and preparation of the necessary documentation for the procurement of water equipment for the municipalities of Radovich, Kichevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo, and Prilep; the contract is planned to be concluded in the third quarter of 2024 with an implementation period of 18 months.
- Service contract - Preparation of studies for project documentation and tender dossier for investment projects for the collection and treatment of wastewater in the municipalities of Gostivar, Kavadarci and Debar, the contract is planned to be concluded in the third quarter of 2024 with an implementation period of 18 months.
- Service Agreement: Technical Audit for Large Wastewater Projects; the contract is scheduled to be concluded in the fourth quarter of 2023 with an implementation period of 47 months.
- Construction Works Contract and Service Contract: Closure of Irregular Landfills and Illegal Dumps in the Eastern Region - Lot 1, Construction Supervision Contract for Closure of Non-Compliant Landfills and Illegal Dumps in the Eastern and North-Eastern Regions - First phase; the contract is in the implementation phase and it is expected to be completed in the third quarter of 2024.
- Contract for Civil Works: Closure of Irregular Landfills and Dumps in the Northeast Region - Lot 2; the contract is scheduled to be awarded in the fourth quarter of 2023 with an implementation period of 24 months.
- Construction works contract and service contract: Construction of a central waste management facility (sorting plant, MBT plant, landfill, composting plant, green point) for the eastern and north-eastern regions of Sveti Nikole and Construction of six local waste management facilities: transfer stations, composting plants, and green points for the Eastern and North-Eastern regions; Supervision of a construction contract for the establishment of an integrated and self-sustaining regional waste management system in the Eastern and North-Eastern regions: the contract is scheduled to be concluded in the first quarter of 2024 with an implementation period of 30 months.
- Services Agreement: Technical audit of large waste projects; the contract is scheduled to be concluded in the fourth quarter of 2023 with an implementation period of 32 months.
- Contract for services for the preparation of energy audits and project documentation for energy efficiency projects in municipal buildings; the contract is planned to be concluded in the second quarter of 2024 with an implementation period of 18 months.
- A direct grant of the Ministry of Finance for the sub-grant scheme in combination with the WB loan programme and implemented by the Ministry of Finance PIU; the contract is planned to be concluded in the fourth quarter of 2023 with an implementation period of 40 months.

- Action Programme 2017 - Education, employment, and social policy
 - Contract for services: Increasing the quality of preschool education and care; in the process of implementation with programme payment until the fourth quarter of 2025.
 - Service Agreement: Improvement working conditions; in the process of implementation with programme payment until the fourth quarter of 2025.
 - Direct grant of the ESA: Activation of the labor market of vulnerable groups; in the process of implementation with programme payment until the fourth quarter of 2025.
 - Contract for construction works and contract for services: Construction of kindergartens in the municipalities of Tetovo and Tearce and Supervision of a construction contract; in the process of implementation with programme payment until the fourth quarter of 2025.
 - Twinning Agreement: Further support for the implementation of the National Qualifications Framework; in the process of implementation with programmatic payment by the fourth quarter of 2025.
 - Procurement agreement: Procurement of equipment - Further support for the implementation of the National Qualifications Framework; in the process of implementation with programmatic payment by the fourth quarter of 2025.
 - Contract for services: Improving the quality of education; in the process of implementation with programmatic payment until the fourth quarter of 2025.
 - Service Agreement: Increasing the attractiveness, inclusiveness, and relevance of VET and adult education; in the process of implementation with programmatic payment by the fourth quarter of 2025.
- The Annual Action Programme 2022
 - Contract for construction works and contract for services: EU for modern systems for treatment plants in Shtip and Vinica
- The IPARD 2014-2020 program
 - Grant contracts in the field of agricultural production, food processing, and rural development for which 2363 contracts have been concluded out of a total of eight public calls
- IPARD Programme 2021-2027
 - Grant contracts in the field of agricultural production, food processing, and rural development

Comparison of the previous Budget and its implementation, as well as a qualitative and quantitative explanation of the main deviations

Areas	Budget 2021	Realisation 2021	% of realisation 2021 with Budget of 2021	Budget 2022	Realisation 2022	% of realisation 2022 with Budget of 2022
Programme						
Transport, Environment, Education, Employment						
ME/account 603	191.788	94.956	50%	129.044	119.76	92.80%
ME/account 785	2.288.973	553.286	24%	1.100.707	782.778	71.11%
MB/account 603	38.789	7.837	20%			
MB/account 785	/	/	/	/	/	/
MA/account 603	/	/	/	/	/	/
MA/account 785	feb.85	1474	52%	/	/	/
Loan from EIB and EBRD	/	/	/	67	63.197	94,32%
MB/account 786						
Rural development						
MD/account 785	758.023	438.607	58%	842.676	825.246	97.92%

In the Budget for 2021, a total of 191.78 million denars were provided for the implementation of the projects financed by IPA as mandatory national co-financing and an additional 2,289.8 million denars as donation funds. Approximately 27% of the total funds provided in the budget for 2021 were used, that is, payments were made based on the contracts in the total amount of 649.95 million denars. As of December 2021, the level of realisation for the IPA Component for Transition Assistance and Institutional Upgrading, i.e., the MA program, is 51.74%. In the course of 2021, the deferred final payments from the Transition Assistance and Institutional Upgrading Programme were made for the projects that were implemented within the framework of the National Programme TAIB 2013. The difference between the planned and realised funds within the framework of this programme is due to less approved costs by the SCFSD as a contracting authority compared to the costs reported by the contractors.

The expenditures planned in the Budget for 2021 within the framework of the MV - Regional Development Programme referred to the completion of the construction activities for the rehabilitation project of the Bitola-

Kremenica railway. During 2020, all construction activities in relation to this contract were fully completed, and the Certificate of Final Acceptance was issued in December 2020. The final payment for the construction works contract and the supervision contract was made in 2021.

Additionally, within the budget of this program, funds were planned for the final payment in relation to the construction contract and the supervision contract of the project "Construction of Corridor 10 - highway section, Demir Kapija-Smokvica" where the funds are provided by a loan from the EIB and EBRD.

Payment of funds in relation to these two contracts is not realised during 2021 due to the lack of will on the part of the contractor of construction works to remove the identified defects during the period for reporting defects, which is why the supervision cannot finalise acceptance of the performed works. Therefore, the funds for the payment of the supervision contract are properly planned in the Budget for 2022. In order to close this project, SCFSD submitted the information to the Government of RNM, with a proposal of activities for closing the Contract for the construction works for the project "Construction of Corridor 10 - highway section Demir Kapija-Smokvica". This information proposes that the Public Enterprise for State Roads undertake the obligation to remove the defects reported within the project and for the estimated amount that will be required to repair the defects determined during the warranty period, including all additional costs incurred on other grounds, to reduce the Construction Contract accordingly and to reduce this amount from the amount owed to the contractor.

A total of 129 million denars were provided from the Budget for 2022 for the implementation of the projects financed by IPA, i.e., in the EU Integration section as mandatory national co-financing, an additional 1,100 million denars as donation funds, and 67 million denars based on loans. 93% of the planned national funds of the total provided funds in the budget for 2022 were used, i.e., 71% of the planned donation funds. In the programme for Rural Development (IPARD), despite the global pandemic, there is a good realisation of funds because there is a great interest on the part of end users, and a large number of applications have been received and contracts have been concluded with the IPARD Agency.

Comparison of the projections of the given parameters with the previous fiscal strategy, as well as a qualitative and quantitative explanation of the main changes, including changes in policies.

	Revised Fiscal Strategy 2023-2027	Fiscal strategy 2024-2028	in mil. denars % of increase/decrease of projections
ME/account 603	2.183.200	5.070.195	132%132%
ME/account 785	22.275.276	28.015.738	26
MD/account 785	3.516.420	981.461	-72%

In the ME programs, in the fiscal strategy 2024-2028, an increase in funds from the budget is foreseen, and in addition to the implementation of the current agreements from IPA 2, the process of programming and accreditation of IPA 3 has also been started, where the implementation of agreements in the area of the environment and employment have been foreseen.

In the Rural Development Programme (IPARD), the fiscal strategy 2024-2028 has been reduced by 72% compared to the previous fiscal strategy as a result of the completion of the implementation of the IPARD 2 programme and the expectation of the start of the implementation of the new IPARD 3 program, for which, according to the current data in this fiscal strategy, it is planned in the fiscal strategy for only one public call to be published.

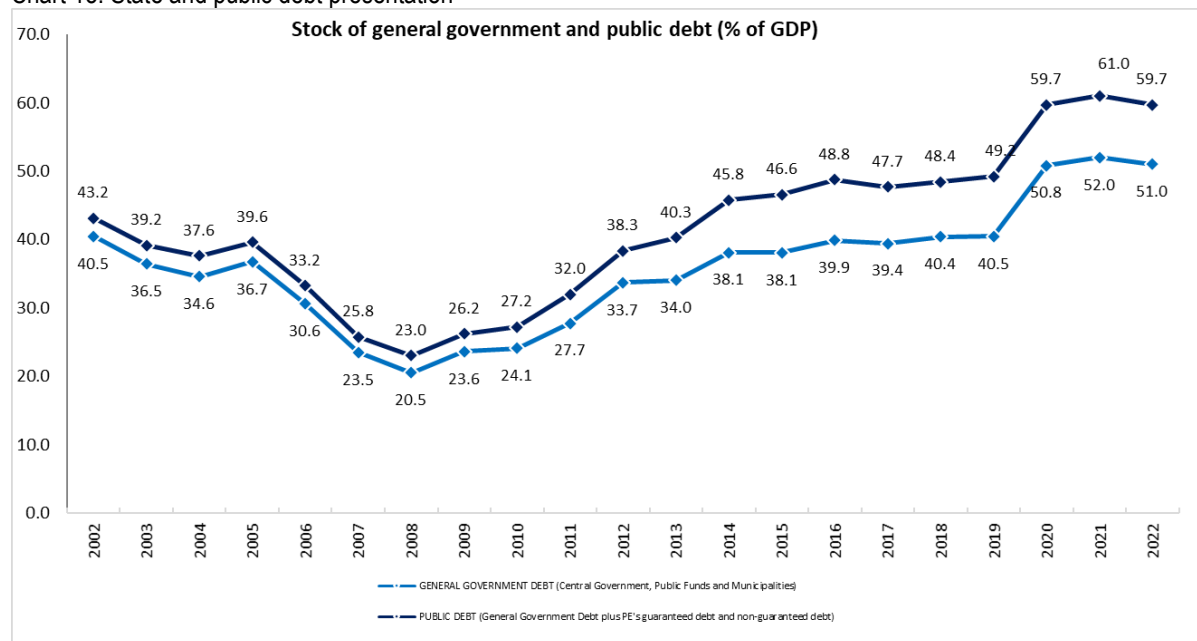
5. Public debt

Efficient public debt management is of essential importance and implies risk reduction when conceiving the structure and policy for debt management in order to avoid the eventual impossibility of regular and timely servicing of the debt. The main goal is to provide the necessary funds to finance the budget deficit, to pay off the debts that are due as a result of borrowings from previous years, as well as funds for project financing, without causing an unjustified increase in the debt to a level that can threaten the stability of the economy and the economic growth of the state. Quality debt management, among other things, is determined by the institutional framework and the capacity to set up and implement the public debt management policy. It implies a clear definition of the goals and measures for the public debt management.

5.1. Amount of public and state debt

On December 31, 2022 the state debt of the Republic of North Macedonia was 6,581.1 million euros, ie 51.0 % of GDP. The debt of the central government, which amounts to 6,563.5 million euros, has the dominant share of the state debt, while the debt of the municipalities amounts to 17.5 million euros. The total public debt includes the state debt and the debt of public enterprises and trading companies of which the state is the dominant or full owner (guaranteed and unguaranteed debt) and as of December 31, 2022, it amounts to 7,702.9 million euros, which represents 59.7 of GDP.

Chart 15: State and public debt presentation



Central government debt represents 99.7 % of total government debt at the end of the fourth quarter of 2022, and this debt is directly managed by the Ministry of Finance. For other levels of debt, such as the debt of municipalities and the debt of public enterprises and trading companies in the dominant ownership of the state or municipalities, the Ministry of Finance participates in the borrowing process but cannot influence the intensity of the withdrawal of funds in the concluded loans.

More detailed projections on the movement of state and public debt will be presented in the 2024-2026 Public Debt Management Strategy (with prospects until 2028).

5.2. Guaranteed debt and risk of activation of state guarantees

In order to obtain better conditions for financing by creditors, the state issues a state guarantee after conducting analyses on the borrower and his ability to independently service future obligations. When making new borrowings, the long-term sustainability of public finances is taken into account, while the process of issuing new guarantees is strictly regulated and subject to the borrowing procedure as stipulated in the Law on Public Debt, according to which guarantee applicants must meet certain criteria in order for the state to be able to issue a guarantee. In accordance with the legal changes in the Law on Public Debt in 2019, the management of potential liabilities has been improved by strengthening capacities in the area of issuing borrowing consents. Namely, when issuing a state guarantee, the Ministry of Finance performs credit analysis and assessment of the creditworthiness of holders of public debt in accordance with a special prescribed assessment methodology. This approach ensures with international practices regarding the issuance of state guarantees.

The state guarantees issued as of December 31, 2022 amount to 1,053.7 million euros, which represents 8.2% of GDP.

Although the guaranteed debt is an integral part of the public debt and it is published in a transparent manner, the Ministry of Finance takes into account the risk associated with the potential obligations, i.e., what would be the effects on the Budget in the event of the possible activation of the state guarantees. This segment is explained in more detail in the section on fiscal risks as an integral part of the Fiscal Strategy.

6. Comparative analysis of macroeconomic and fiscal projections for 2024-2028

6.1 Comparison with the Revised Fiscal Strategy 2023-2027

The Fiscal Strategy of RNM 2024 -2028 compared to the Revised Fiscal Strategy of RNM 2023 -2027 shows certain deviations as far as macroeconomic projections are concerned, which are a reflection of the uncertainty and challenges facing the domestic economy due to the continued war in Ukraine, the energy crisis, the tightened monetary policy to reduce inflationary pressures, as well as the risks to both the global and domestic economy.

In 2023, further growth of the economy is expected, although at a more moderate level compared to the previous projection, as a result of expectations for lower growth in private consumption than before, due to the still high level of inflation and increased financing costs, although consumption will continue to be one of the main sources of growth. An acceleration of growth is expected in the coming period, and there are no corrections. Regarding the composition of economic activity growth, as in the previous Fiscal Strategy, growth is expected to be driven by domestic demand, with a positive contribution from both consumption and investments, while net exports are expected to have a negative contribution but to gradually narrow down in conditions of solid growth of both exports and imports.

There are more significant deviations for the year 2023 in the inflation rate, which has been revised upward due to the fact that it proved to be more resistant compared to previous expectations, and although it has a downward tendency, it is still at a high level in the first quarter of the year. Expectations for the reduction and stabilisation of food prices and the stabilisation of energy prices, as well as the Government's measures to reduce the prices of basic products, will contribute to slowing down the inflation rate during the year. Projections for the next period have not been revised.

Regarding the balance of payments, there is a slight downward correction of the current account deficit due to expectations for a smaller trade deficit in the next period.

Regarding the labor market, there are deviations in relation to previous projections, partly due to the revisions of the data published in the Labor Force Survey processed according to the population forecasts from the Census 2021. The lower growth of economic activity will contribute to a more moderate growth in the number of employees and, accordingly, the employment rate, while the unemployment rate will be somewhat lower compared to before. Regarding wages, the projections have been revised upward in terms of the harmonisation of the minimum wage in 2023, the harmonisation and increase of wages in the public sector, as well as the expected increase in wages in the private sector.

Indicators	Revised Fiscal Strategy 2023-2027					Fiscal Strategy 2024-2028				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
GDP, real growth rate (%)	2.9	4.1	5.0	5.6	5.4	2.5	4.0	5.0	5.6	5.4
Inflation rate (average)	7.1	2.5	2.0	2.0	2.0	8.9	2.5	2.0	2.0	2.0
Current account balance (% of GDP)	-4.4	-3.5	-2.9	-2.5	-2.0	-4.2	-3.3	-2.8	-2.3	-1.6
Net wage - nominal growth (%)	7.3	6.4	6.1	6.1	5.8	10.6	6.4	6.1	6.0	5.8
Unemployment rate (average)	14.2	13.3	12.0	10.7	9.5	14.0	13.1	11.9	10.5	9.4
Employment rate (average)	48.4	49.3	50.6	52.0	53.4	47.7	48.6	49.9	51.3	52.6

Source: Projections of Ministry of Finance

Table 14. Comparison of the mid-term projections for the RNM Budget with the Revised Fiscal Strategy of the RNM 2023-2027 (in mil. denars)

	Rev. fisc. strategy 2023-2027						Fiscal Strategy 2024-2028							Deviation (Rev. Fiscal 2023-2027 / Fiscal 2023-2027)							of deviation						
Budget of the Republic of North Macedonia	2022*	2023*	2024*	2025*	2026*	2027*	2022*	2023*	2024*	2025*	2026*	2027*	2028*	2022*	2023*	2024*	2025*	2026*	2027*	2022*	2023*	2024*	2025*	2026*	2027*		
Total revenues	245,758	282,052	298,556	319,558	341,780	366,547	243,085	282,052	299,747	322,113	345,195	369,834	392,871	-2,673	0	1,191	2,555	3,415	3,287	-1	0	0	1	1	1		
Tax revenues and contributions	221,770	250,689	268,694	287,898	308,642	331,885	220,186	250,689	269,385	289,953	311,457	334,672	357,749	-1,584	0	691	2,055	2,815	2,787	-1	0	0	1	1	1		
Tax revenues	143,173	162,600	175,030	188,304	202,742	219,278	142,567	162,600	172,648	187,005	201,914	218,106	233,705	-606	0	-2,382	-1,299	-828	-1,172	0	0	-1	-1	0	-1		
Contributions	78,597	88,089	93,664	99,594	105,900	112,607	77,619	88,089	96,737	102,948	109,543	116,566	124,044	-978	0	3,073	3,354	3,643	3,959	-1	0	3	3	3	4		
Non-tax income	17,043	19,894	20,932	22,130	22,282	22,932	17,189	19,894	20,932	22,130	22,382	22,932	22,892	146	0	0	0	100	0	1	0	0	0	0	0		
Capital income	2,180	2,800	3,530	3,530	3,530	3,730	2,273	2,800	3,530	3,530	3,530	3,730	3,730	93	0	0	0	0	0	4	0	0	0	0	0		
Donations	4,765	8,669	5,400	6,000	7,326	8,000	3,437	8,669	5,900	6,500	7,826	8,500	8,500	-1,328	0	500	500	500	500	-28	0	9	8	7	6		
Total expenses	288,494	324,811	332,226	350,532	375,299	399,993	278,596	324,811	331,437	351,964	378,140	402,998	423,888	-9,897	0	-790	1,432	2,841	3,006	-3	0	0	0	1	1		
Current expenses	256,384	276,059	282,444	297,412	317,061	337,726	249,959	276,059	283,505	299,394	320,252	339,781	355,171	-6,425	0	1,061	1,982	3,191	2,056	-3	0	0	1	1	1		
Wages and allowances	33,234	34,880	36,281	37,781	39,481	41,085	32,159	34,880	37,778	41,492	44,335	46,513	48,121	-1,075	0	1,497	3,711	4,854	5,428	-3	0	4	10	12	13		
Goods and services	23,106	23,631	24,153	24,945	25,845	26,200	21,001	23,631	23,401	23,500	25,100	25,955	27,455	-2,105	0	-752	-1,445	-745	-245	-9	0	-3	-6	-3	-1		
Transfers to LGUs	23,150	26,687	28,210	28,971	29,870	32,737	23,365	26,687	28,710	28,765	30,165	32,608	35,001	215	0	500	-207	295	-129	1	0	2	-1	1	0		
Subsidies and transfers	33,749	32,987	26,975	28,877	31,837	34,973	32,536	32,987	25,975	27,877	31,136	33,973	36,173	-1,213	0	-1,000	-1,000	-701	-1,000	-4	0	-4	-3	-2	-3		
Social transfers	132,924	144,951	151,191	160,061	169,097	178,502	131,758	144,951	151,667	158,388	166,387	174,580	183,021	-1,166	0	476	-1,673	-2,710	-3,922	-1	0	0	-1	-2	-2		
Interest payments	10,221	12,923	15,634	16,776	20,931	24,228	9,140	12,923	15,973	19,372	23,127	26,152	25,399	-1,081	0	339	2,596	2,196	1,924	-11	0	2	15	10	8		
Capital expenditure	32,109	48,751	49,782	53,120	58,238	62,267	28,637	48,751	47,932	52,570	57,888	63,217	68,717	-3,472	0	-1,850	-550	-350	950	-11	0	-4	-1	-1	2		
Budget balance	-42,736	-42,759	-33,670	-30,974	-33,519	-33,446	-35,511	-42,759	-31,690	-29,851	-32,945	-33,164	-31,017	7,225	0	1,981	1,123	574	282	-17	0	-6	-4	-2	-1		
Primary budget balance	-32,515	-29,836	-18,036	-14,198	-12,588	-9,218	-26,371	-29,836	-15,717	-10,479	-9,818	-7,012	-5,618	6,144	0	2,320	3,719	2,770	2,206	-19	0	-13	-26	-22	-24		
Total revenues, % of GDP	29.5	30.6	30.4	30.4	30.2	30.2	29.2	30.6	31.7	31.8	31.7	31.6	31.2														
Total expenditures, % of GDP	34.7	35.3	33.9	33.4	33.2	32.9	33.5	35.3	35.1	34.8	34.7	34.4	33.7														
Budget balance, % of GDP	-5.1	-4.6	-3.4	-3.0	-3.0	-2.8	-4.3	-4.6	-3.4	-3.0	-3.0	-2.8	-2.5														
Primarily bhuj. balance, % of GDP	-3.9	-3.2	-1.8	-1.4	-1.1	-0.8	-3.2	-3.2	-1.7	-1.0	-0.9	-0.6	-0.4														

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

6.2 Comparison with the projections of other domestic and international institutions

Considering the uncertainties related to the duration and military intensity of the Russian-Ukrainian conflict, the restrictive monetary policy by central banks aimed at reducing inflation, the rising uncertainty and problems in the financial sector, and the expanding geopolitical fragmentation, there are noticeable differences between various institutions' projections for economic growth and the inflation rate in the upcoming period (Table 15).

Table 15. Comparison of projections for GDP growth and inflation for North Macedonia

Institution	Real GDP growth (%)						Inflation rate (%)					
	2023	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027	2028
IMF	1.4	3.6	3.9	3.8	3.8	3.5	9.2	3.5	2.3	2.0	2.0	2.0
World Bank	2.4	2.7	2.9	:	:	:	9.2	3.0	2.0	:	:	:
European Commission	2.5	2.8	:	:	:	:	7.9	4.0	:	:	:	:
NBRNM	2.6	3.6	4.0	:	:	:	8.0-9.0	2.4	2.0	:	:	:
Ministry of Finance	2.5	4.0	5.0	5.6	5.4	5.2	8.9	2.5	2.0	2.0	2.0	2.0

Source: IMF (World Economic Outlook, April 2023), World Bank (Western Balkans Regular Economic Report, April 2023), European Commission (European Economic Forecast, November 2022) and NBRNM (Quarterly Report, October 2022).

6.3 Comparative analysis of borrowing needs and sources

In accordance with the projections of financing needs and borrowing sources shown in the Revised Fiscal Strategy 2023-2025 (with prospects until 2027), hereinafter referred to as the Revised Fiscal Strategy 2023-2027, a lower degree of realisation of foreign and domestic sources of financing can be ascertained, the realisation of which, compared to the plan, is 38% and 54.1%, respectively. Namely, in the conditions of the energy and economic crisis, which have been a global problem for the past period and which

accordingly affected the growth of interest rates on the international markets, the Ministry provided a financial instrument, a bond registered on the German financial market "Namensschuldverschreibungen"-NSV, to finance the budget deficit and for the refinancing of government debt obligations for the current year. This instrument was secured at a significantly lower interest rate than what would be achieved with the eventual issuance of a new Eurobond. A short-term loan in the amount of EUR 50 million was secured on the domestic market and a net withdrawal of domestic securities was realised in the amount of EUR 114 million, which is less than planned.

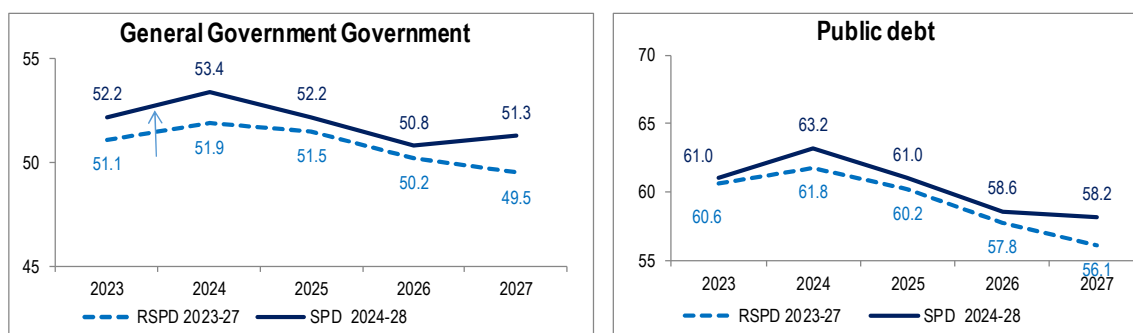
Overview of planned and realised repayments for debt and borrowings of the central budget in 2022 (in millions of denars)				
Base	Revised Fiscal Strategy 2023-2025	realisation	deviation	% of deviation
Foreign sources	65.524	24.895	-40.629	38,0%
Domestic sources	27.130	14.681	-12.449	54,1%
Repayment of principal	11.777	11.358	-419	96,4%
External debt	6.235	5.787	-448	92,8%
Internal debt	5.542	5.571	29	100,5%

The borrowings planned in this Fiscal Strategy for 2023, compared to the borrowings planned in the revised Fiscal Strategy 2023-2027, are identical in terms of the projection of domestic sources of borrowing, and differ in terms of the amount and structure of foreign borrowing. Namely, in the Revised FS 2023-2027 foreign borrowing was planned to take place in the amount of 66,876 million denars with funds secured from the international capital market in the form of a Eurobond, a second tranche from the IMF, a loan for budget financing from the World Bank, as well as withdrawals from loans from international financial institutions for financing projects that are implemented by budget users. However, taking into account the global movements of interest rates, which have significantly increased compared to previous years, the Ministry of Finance decided to borrow with a Eurobond in the amount of 500 million euros (which is a smaller amount compared to the planned one) and at the same time to provide 100 million euros from the European Union as macro financial support. Other foreign funding sources remain in the same amount and structure as in the Revised Fiscal Strategy 2023-2027. In terms of medium-term borrowing, the amount of domestic and foreign borrowing remains unchanged, with the exception of 2027, where the amount of borrowing has increased as a result of the need to refinance the Eurobond issued this year, which matures in 2027.

According to the above, the change in the amount of financing sources has its own reflection on the level of both state and public debt. Namely, the revised financing needs are foreseen in the Public Debt Management Strategy for 2024-2026 (with prospects until 2028), and in the below follows a comparative analysis of the level of the state and public debt in relation to GDP, compared to the revised Public Debt Management Strategy 2023-2027.

	RSPD 2023-27					SPD 2024-28									
	Revised 2023-2025 Public debt management strategy of Republic of North Macedonia (with 2027 prospects)					Public debt management strategy of Republic of North Macedonia for the period 2024 to 2026 (with 2028 prospects)					deviation (in p.p)				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
% of GDP															
General Government debt	51.1	51.9	51.5	50.2	49.5	52.2	53.4	52.2	50.8	51.3	1.1	1.5	0.7	0.6	1.8
Public debt	60.6	61.8	60.2	57.8	56.1	61.0	63.2	61.0	58.6	58.2	0.4	1.4	0.8	0.8	2.1

Source: Ministry of Finance and projection of Ministry of Finance(*)



Source: Ministry of Finance and projection of Ministry of Finance(*)

7. Fiscal risks and sensitivity analysis

Medium-term economic and fiscal projections are always accompanied by a certain degree of uncertainty and risks. The eventual materialisation of those risks, which assume different conditions from those taken as a basis for the medium-term projections discussed above, would result in deviations from the basic medium-term scenario, that is, a different realisation of the key fiscal variables. Therefore, in this part of the Fiscal Strategy, the possible effects of the possible realisation of several main macro-fiscal risks on the budget deficit and the national debt are analyzed. In addition, this section analyzes the exposure of government debt to market risk, as well as the effect of different financing strategies on the level of debt, debt servicing costs, and portfolio structure.

7.1 Macro-fiscal risks and sensitivity of the budget deficit and the national debt

This part of the Fiscal Strategy provides an overview of the results of the sensitivity analysis on the sensitivity of the budget deficit and the level of government debt to the eventual realisation of the four main identified risks for the fiscal policy in the medium term. In doing so, all risks are analyzed separately, and in all scenarios where the absence of other deviations from the basic scenario and the realisation of only the individual risks are assumed:

- Scenario 1 - Reduced economic growth,
- Scenario 2 - Lower tax revenues by 5%,
- Scenario 3 - Lower realisation of capital expenditures by 25%,
- Scenario 4 - Servicing of obligations based on issued guarantees with funds from the RSM Budget,
- Scenario 5 - Local government risks and
- Scenario 6 - Fiscal risks from the current operation of Public Enterprises and state-owned trading companies

Given that the basic medium-term fiscal projection is based on certain macroeconomic assumptions, they are considered a primary factor with a potential impact on fiscal movements. From there, as the first risk scenario, we assume the materialisation of the downward risks related to the duration and military intensity of the Russian-Ukrainian conflict, the restrictive monetary policy of the central banks aimed at reducing inflation, the increased uncertainty and problems in the financial sector, the future course of the pandemic, as well as the growing geopolitical fragmentation and hence negative consequences on the overall domestic economic activity. Under this scenario, the projection for average real GDP growth between 2024 and 2028 is 1.1 percentage points lower than in the baseline scenario. At the same time, the eventual lower economic growth will also imply a lower realisation of the cyclical component of budget revenues. Hence, relative to the baseline projection, this scenario would result in a

larger budget deficit by 0.7 percentage points of GDP annually on average between 2024 and 2028, while government debt would be 5.2 pp higher of GDP at the end of 2028.

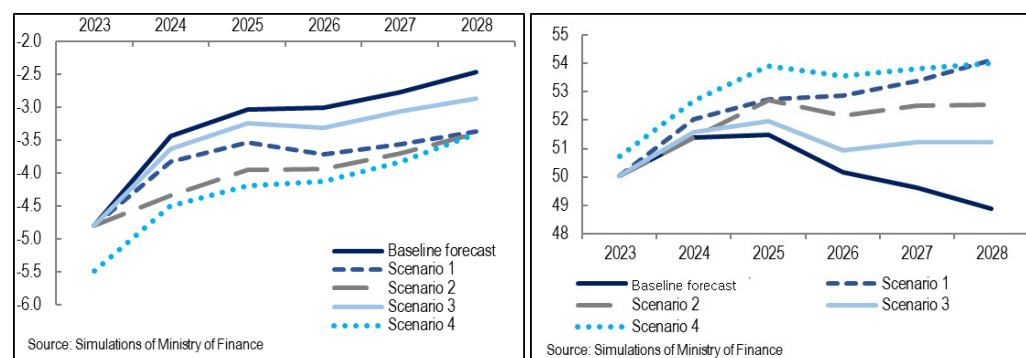
As a second scenario, a reduced tax revenue collection by 5% is assumed per year in relation to the basic projection. In conditions of an unchanged level of budget expenditures and unchanged economic growth, reduced tax revenues would contribute to an annual average increase in the budget deficit by 0.9 percentage points of GDP in the period 2024-2028 compared to the baseline projection, while, at the end of 2028, the government debt would be higher by 3.7 pp of GDP relative to the baseline projection.

In the third scenario, a lower realisation of the capital expenditures is assumed, that is, their realisation at the level of 75% in relation to those predicted by the basic projection, which is similar to the realisations in the past. The reduced realisation of capital expenditures would have negative consequences on the growth of gross investments and, accordingly, on the growth of economic activity in relation to the basic scenario by an average of 0.5 percentage points per year. This scenario would also have a negative impact on tax revenues, which would exceed the effect of reduced expenditures. Hence, according to this scenario, the budget deficit would be higher by 0.3 percentage points of GDP on average per year in the forecast period compared to the baseline projection, while the government debt would be higher by 2.4 pp. of GDP at the end of 2028 relative to the baseline projection.

The fourth scenario assumes that the liabilities due on the basis of principal and interest on loans guaranteed by the state will be fully serviced by the Budget of the Republic of North Macedonia, which is an extreme assumption. The eventual materialisation of this extreme scenario will cause an increase in the level of budget expenditures in the coming period. In conditions of an unchanged level of budget revenues and unchanged economic growth, this would contribute to an increase in the budget deficit by 1.1 pp. of GDP on average annually in the period 2023-2028 compared to the basic projection, and the state debt at the end of 2028 would be higher by 5.1 pp relative to the baseline projection. Moreover, the effect of this scenario on the debt would be present throughout the entire medium-term period.

In summary, the realisation of any of the four risk scenarios, which reflect the main identified macro-fiscal risks in the coming period, would for the most part result in relatively limited effects on the budget deficit and government debt (Graph 16). More precisely, in no case is the sustainability of the fiscal policy threatened in the medium term.

Chart 16: Sensitive analysis of the budget deficit (left) and the government debt (right) of the main macro-fiscal risks (in % of GDP)



The fifth scenario - The financial operation of the municipalities is accompanied by risks that mostly occur as increased amounts of overdue unpaid obligations and the fulfillment of conditions for financial instability.

In the direction of increasing the financial discipline of the municipalities and reducing debts and household operations, measures are foreseen for realistic planning of the revenues and expenses of the municipalities, rationalisation in operations and reduction of unnecessary expenses, regular servicing of obligations, greater financial discipline, declaration of financial instability, issuance of municipal bonds, and analysis of existing obligations of municipalities and public enterprises. The increase in control by the state is ensured through the supervision carried out by the Financial Inspection regarding compliance with the provisions of the Law on Reporting and Recording of Obligations, the Law on Financing Local Self-Government Units, and the Law on Financial Discipline.

According to data from the Electronic System for reporting obligations, for the analyzed period, an increase in obligations is observed among individual users at the local level, while a decrease in obligations is observed among municipalities and local public enterprises.

The Ministry of Finance monitors the financial operations of the municipalities on a quarterly basis based on the periodic financial reports received and the data on blocked accounts. According to these analyzed data, by the end of 2022, 13 municipalities meet the conditions for financial instability (Aracinovo, Vasilevo, Gostivar, Delchevo, Zelino, Krivogashtani, Ohrid, Pehchevo, Resen, Struga, Tetovo, Ceshinovo - Obleshevo and Saraj).

In the area of activities related to increasing financial discipline and efficiency and reducing and reprogramming the due and unsettled obligations of the local self-government units, the Ministry of Finance will give municipalities the opportunity to use one of three credit instruments in order to overcome the problems with due and unpaid obligations, namely:

- use of conditional credit (standby) from the Ministry of Finance.
- issuance of a municipal bond for a known buyer - Ministry of Finance.
- issuance of a structural bond by the Ministry of Finance.

This way of solving problems with outstanding obligations is related to fulfilling the conditions for declaring financial instability. At the same time, this section strengthens the entire procedure, from the moment of announcement to the part about overcoming financial instability. With the latest amendments to the Law on Financing of Local Self-Government Units, one of the conditions for meeting financial instability is tightened, i.e., the percentage (80%) of the total amount of outstanding obligations over 60 days in a period of six months, continuously every month, with the condition that at the end of the month, it decreases and should not exceed 60% of the realised revenues of the basic budget of the municipality in the previous year, starting from 2024. The percentage in 2023 should not exceed 70% of the realised revenues of the basic budget of the municipality in the previous year.

The sixth scenario covers expenses related to the financing of the Energy Crisis, global uncertainties caused by the situation in Ukraine, as well as the constant growth of prices in the international environment.

In the past period, and in the direction of protecting the Macedonian economy and the standard of living of the citizens, with the support of JSC "ESM" with funds from the Budget of the Republic of North Macedonia, subsidies were provided for the price of electricity as well as production in sufficient quantities, with the aim of timely and uninterrupted delivery to households and small consumers. In this way, the consequences of high inflation were mitigated, which, on the other hand, greatly affected the deterioration of liquidity in public enterprises and joint-stock companies, which in turn spilled over to the budget deficit and public debt.

Given that such measures are not sustainable in the medium term, in the coming period it is necessary for the competent authorities of JSC "ESM" to focus on measures that foresee an increase in operating income and firm control of operating expenses.

The effects of the world economy and the energy crisis also had an impact on the operations of AD "Water Management of the Republic of North Macedonia", AD "Post of North Macedonia" and AD "MŽ Transport", which in the past period were faced with the inability to settle current obligations, primarily electricity costs and employee salary costs. In accordance with this and in the direction of ensuring financial stabilisation and independence in functioning, it is necessary to take actions in the direction of continuing and fulfilling the measures provided for in the Fiscal Sustainability Plan and supporting economic growth, which include consolidation of both the income and expenditure side.

Budgetary support for mitigating price shocks, i.e., subsidizing the electricity system to preserve the standard of living of citizens and the liquidity of companies, amounted to about 1.7% of GDP. While these expenses are eliminated, the budget deficit is within the framework of the fiscal rule.

Expected results of the mid-term projections

- In the medium term, despite the present risks and uncertainty, fiscal policy will continue towards further consolidation, restructuring, and optimisation of public revenues and expenditures by gradually reducing the budget deficit and public debt, encouraging economic activity through capital expenditures and infrastructure investments, as well as improving the conditions for doing business and creating new jobs.
- The redefined budget framework ensures a timely and appropriate fiscal response as well as a sustainable position of public finances
- Realisation of capital expenditures and infrastructure projects in priority areas, in accordance with government policies, will generate positive multiplier effects on economic growth in the medium term and accelerate real economic convergence towards European economies.
- Optimizing borrowing costs is aimed at reducing the budget burden of interest payments in the short and medium term.
- Preserving macroeconomic stability and fiscal sustainability will create more favorable conditions for dynamizing economic activity.

