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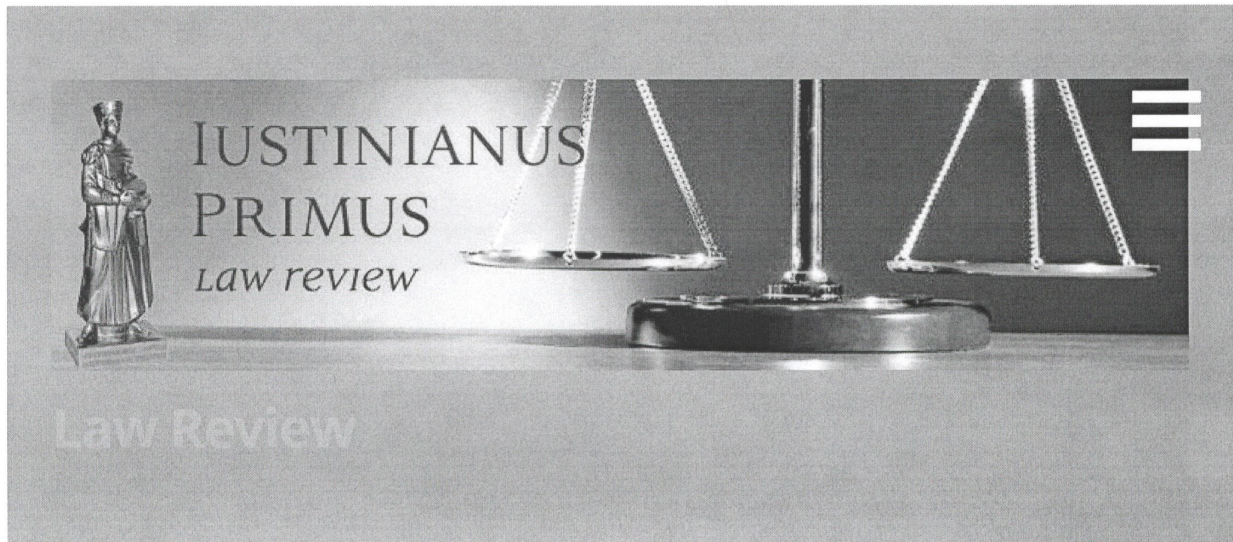
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## MACROECONOMIC STABILITY IN MACEDONIAN ECONOMY IN TROUBLED TIMES

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### -abstract-

The subject of research of this paper presents the macroeconomic stability in the Macedonian economy in time of the Covid-19 crisis. The purpose of the research of this paper is to analyze whether Macedonian economy is a well-functioning market economy in troubled times and what are the risks for the future in our economy. The first part of the paper is an introduction, which explains the topic of the research, while the second part of this paper explains the macroeconomic parameters that are used to measure the macroeconomic balance in the economy that are: general price stability (inflation rate), labour market equilibrium (full employment), sustainability of public finances (amount of budget deficit), sustainability of external economic relations (amount of the balance of payments deficit) and indebtedness sustainability (degree of indebtedness). Finally, the third part of the paper is the conclusion.

**Keywords:** economy, price stability, public finances, public debt.

### I. INTRODUCTION

The term *macroeconomic stability* is a well-known term in the economy. However, when it comes to *macroeconomic stability* in the Macedonian economy, the first association for this term comes down to *price stability*, i.e. the existence of a low inflation rate. However, in theory, and practice, *macroeconomic stability* has a wider scope, i.e. in addition to price stability, it includes other aggregates, such as: *low unemployment rate* and acceptable levels of *internal and external deficits*, namely the *budget deficit* and the *balance of payments deficit*. *These aggregates in the Macedonian economy have not yet stabilized, but on the contrary, they are constantly increasing over the years, especially during the Covid-19 crisis.*

After the independence of our country, *transitional reforms* were implemented in the Macedonian economy and significant *results* were achieved in the following areas<sup>1</sup>:

- *in changing the normative framework with approximation to the European legislation.* Of course, that "homework" is not over yet. In that sense, at least due to the dynamism as a universal determinant of the economic reality, that activity will continue to take place continuously.

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<sup>1</sup> Todorova S., Uzunov V., Petrevska B., "Applied Economy", Cultura, Skopje, p.183.

- *in terms of macroeconomic (i.e. price) stability.* Through the designed set of macroeconomic policy measures (primarily monetary and fiscal policy), as well as the financial and technical support from the International Monetary Fund and the World Bank, *extremely good results have been achieved in terms of macroeconomic stability. Until a few years ago, the Macedonian economy was within the European criteria for low inflation and a budget deficit of up to 3% of gross domestic product (GDP).*

On the other hand, the fact that the stabilization policy in Macedonian economy is realized with a *strong budget and monetary "constraints"* is undisputed, by suppressing the demand towards the decreasing supply, which in turn is a result of the *reduced economic activities in the country.* The *Macedonian society is, in fact, facing a long-running, debilitating developmental depression. The lack of economic growth and development has severely curtailed the economic potential to alleviate the most pressing problems – the unemployment and the poverty.* The low volume of domestic savings and the relatively small inflow of foreign capital, cause *low investment activity and economic growth rate.*

## II. MACROECONOMIC PARAMETERS IN THE MACEDONIAN ECONOMY

Whether a market-regulated economy is *functional*, i.e. well functioning, or not, is seen through its *macroeconomic balance.* Namely, it is a macroeconomic balance which represents a balance of aggregate supply and demand, in the presence of market freedom. To measure the *macroeconomic balance*, *macroeconomic parameters* are used, as follows:<sup>2</sup> (1) *general price stability (inflation rate)*; (2) *labour market equilibrium (full employment)*; (3) *sustainability of public finances (amount of budget deficit)*; (4) *sustainability of external economic relations (amount of the balance of payments deficit)*; and (5) *indebtedness sustainability (degree of indebtedness).*

In the case of the Macedonian economy, the stated macroeconomic parameters have an uneven movement, both in terms of their mutual comparison and in terms of their changes over time.

### a. *General Price Stability (Inflation Rate)*

Namely, until recently, *the situation was the most stable in terms of inflation rate (the general price stability).* Throughout the past period, inflation in the Macedonian economy was maintained at a low and predictable level. Except on two short occasions in the years 2000 and 2008 - although inflation did not exceed 10% even then - in all other years it was kept below 5% (and in the years 1999 and 2009, the Macedonian economy had a short-term deflation)<sup>3</sup>. So, in terms of maintaining low inflation, the Macedonian economy had a very solid performance, measured according to the European Union Maastricht criteria until the Covid - 19 crisis.

Today, when we are living in a pandemic society, the life of Macedonian citizens becomes more expensive. The Macedonian Chambers announce a *price shock*, as a result of climate change, reduced agricultural production, insufficient labour, expensive transport and expensive energy. In September 2021, the Macedonian citizens were buying *5-10% more expensive food*, and it is uncertain whether the announcement of the new price wave will bring an *increase in the price of electricity, utilities, and transportation.*<sup>4</sup>

<sup>2</sup> Todorova S., Uzunov V., Petrevska B., "*Applied Economy*", Cultura, Skopje, p.374-375.

<sup>3</sup> <https://www.nbrm.mk/>, Accessed on 10.10.2021 at 2 p.m.

<sup>4</sup> <https://24.mk/details/cenovnen-shok-khranata-poskapa-i-do-50-procenti>, Accessed on 10.10.2021 at 3 p.m.

However, according to the data of the State Statistical Office in the Macedonian economy, in September 2021, oil, vegetables, fruits, fish, but also solid and liquid fuels for households, medicines, and catering services became more expensive. *The cost of living in September 2021, compared to September 2020 increased by 3.7 per cent and retail prices by 5.6 per cent.*<sup>5</sup>

The Ministry of Economy in our country said that: “the possible activities for freezing the prices of basic products have not been delayed and the predictions that by the end of 2021 they will increase by about 50 per cent are not correct, because they're closely monitoring the situation and depending on how the prices of raw materials will move in the area of import and production of Macedonian products, they will act immediately, referring to the Law on Trade, Wholesale and Retail as they have already done the previous 2020 Covid-19 year when they did not allow an enormous increase in prices in Macedonian economy”.<sup>6</sup>

### **b. Labor market equilibrium**

*Unemployment as a parameter of the macroeconomic balance of the Macedonian economy is a special aspect. In short, despite the slight decrease in the unemployment rate in the last 2-3 years, it remains high, in the presence of structural unemployment, which is the most difficult to address.*

The labour market in the Macedonian economy is characterized by several aspects. It must be about his *imbalance*, which is just a different way of saying *unemployment*. And other characteristics of the labour market determine the imbalance. Thus, first, it comes to its relative *rigidity*, *i.e. inflexibility*. Second, *wage setting in the private sector* is decentralized at the enterprise and employee level (although there are unions as well as collective agreements), as opposed to the public sector. Third, the average wage level in the Macedonian economy is not considered a major obstacle to new employment, but *the wage contributions*, which include personal income tax, health insurance, pension insurance and other taxes, are an obstacle. *Labour market inflexibility is rightly considered one of the generators of high unemployment in the Macedonian economy.*<sup>7</sup>

In August 2021, the number of unemployed persons in the Macedonian economy was 137.707, while *the unemployment rate in September 2021 was 15.9%*. In any case, *the Macedonian economy is far from achieving macroeconomic balance on the issue of full employment*. Serious *structural reforms* are needed in the short and especially long term to work on as a state and the economy, to achieve this macroeconomic balance.<sup>8</sup>

### **c. Sustainability of public finances (a budget deficit)**

Regarding *the level of the budget deficit*, during the first decade and a half of the transition, through the implementation of a restrictive policy, the Macedonian economy reduced the budget deficit to an extremely low level. Thus, the budget deficit of the Macedonian economy in 2004 was reduced to 0.1% of GDP, in 2005 a budget surplus of 0.3% of GDP was made, and in 2006 and 2007 a deficit of about 0.5% of GDP was made again. However, since 2008 the deficit has been constantly growing: from 0.9% of GDP in 2008, 2.7% of GDP in 2009, 2.4% of GDP in 2010, 2.5% of GDP in 2011, 3.9% of GDP in 2012, to over 4% of GDP in 2013 and 2014, after which from 2015 onwards the budget deficit is reduced to 3.5% of GDP in 2015, 2.6% of GDP in 2016, 2.7% of GDP in 2017, 1.8% of GDP in 2018, and 2.1% of

<sup>5</sup> <https://www.stat.gov.mk/publikacii/2021/Bilten%2009%20MAK.pdf>, Accessed on 10.10.2021 at 5 p.m.

<sup>6</sup> <https://plusinfo.mk/ne-e-docna-da-se-zamrznat-cenite-na-oddelni-proizvodi-bekteshi-ne-ochekuva-porast-nacenite-od-50-otsto/>, Accessed on 10.10.2021 at 6 p.m.

<sup>7</sup> Todorova S., Uzunov V., Petrevska B., “*Applied Economy*”, Cultura, Skopje, p.343-344.

<sup>8</sup> [http://av.gov.mk/content/Statisticki%20podatoci/A%D0%B2%D0%B3%D1%83%D1%81%D1%82%202021/Nevraboteni\\_082021.xls.pdf](http://av.gov.mk/content/Statisticki%20podatoci/A%D0%B2%D0%B3%D1%83%D1%81%D1%82%202021/Nevraboteni_082021.xls.pdf), Accessed on 10.10.2021 at 7 p.m.

GDP in 2019. This trend changed with the onset of the Covid-19 pandemic, and the budget deficit in 2020 reached 8.1% of GDP.<sup>9</sup>

In the Budget of our country in *January 2021*, a budget deficit of 2,695 million denars was realized. The budget deficit is mostly financed through government borrowing on the domestic market, and to a lesser extent through the use of government deposits with the National Bank. The realized budget deficit represents 7.7% of the deficit provided by the Macedonian Budget for 2021.<sup>10</sup>

That is, the *Macedonian economy has a budget deficit above the Maastricht criterion*. These performances, among other things, are a *clear signal of concern for the sustainability of the budget deficit*, which is highlighted in the European Commission Progress Reports of our country.

#### **d. Sustainability of external economic relations (the balance of payments deficit)**

Regarding *the foreign trade and balance of payments deficit*, the Macedonian economy is characterized by a *consistently high external economic imbalance (high trade deficit)*. This is primarily a reflection of *the high import dependence on the relatively cheap exports of Macedonian economy, whose vulnerability is even greater due to the high concentration of exports in only a small number of sectors*. Although in the last few years the Macedonian export has increased, due to the import dependence on the export, the import in the Macedonian economy has also increased, so *the deficit is not reduced accordingly*.

Insufficient competitiveness of Macedonian export products and services is a consequence of the unfavourable production export supply, which leads to the absence of adequate response on the demand side. This problem can only be solved by *increasing export competitiveness*, which requires a number of structural reforms.<sup>11</sup>

In the fourth quarter of 2020, the *current account deficit in the balance of payments* amounted to 72.4 million euros, or 0.7% of GDP, while *in the financial account* in the fourth quarter of 2020, net outflows of 32.3 million euros were realized (or 0.3% of GDP). The *deficit in foreign trade* in January 2021 narrowed by 29% on annual basis, amid higher growth of exports than the growth of imports of goods. *The total foreign trade is higher compared to the same period of the previous year, so the recovery from the initial strong shock caused by the Covid-19 pandemic continues in the year 2021*.<sup>12</sup>

#### **e. Indebtedness sustainability (degree of indebtedness)**

In terms of debt, in recent years our country spends significantly more than its economy can create. Therefore, *the total public debt of the state is constantly growing*. At the same time, *both external and internal debt is growing*. And the indebtedness of the state means early spending of future budget revenues which, instead of being spent in the future for investments or to meet the common (public) needs of the citizens, will be spent to repay the previously made debts. Therefore, the debt management of the state is an extremely important issue and

<sup>9</sup> <https://finance.gov.mk/>, Accessed on 11.10.2021 at 12 p.m.

<sup>10</sup> [https://www.nbrm.mk/content/%D0%9D%D0%B0%D1%98%D0%BD%D0%BE%D0%B2%D0%B8-%D0%BC%D0%B0%D0%BA%D1%80%D0%BE%D0%B5%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D1%81%D0%BA%D0%B8-%D0%BF%D0%BE%D0%BA%D0%B0%D0%B7%D0%B0%D1%82%D0%B5%D0%BB%D0%B8\\_%D0%BC%D0%B0%D1%80%D1%82\\_2021.pdf](https://www.nbrm.mk/content/%D0%9D%D0%B0%D1%98%D0%BD%D0%BE%D0%B2%D0%B8-%D0%BC%D0%B0%D0%BA%D1%80%D0%BE%D0%B5%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D1%81%D0%BA%D0%B8-%D0%BF%D0%BE%D0%BA%D0%B0%D0%B7%D0%B0%D1%82%D0%B5%D0%BB%D0%B8_%D0%BC%D0%B0%D1%80%D1%82_2021.pdf), Accessed on 11.10.2021 at 13 p.m.

<sup>11</sup> Todorova S., Uzunov V., Petrevska B., "Applied Economy", Cultura, Skopje, p.375.

<sup>12</sup> [https://www.nbrm.mk/content/%D0%9D%D0%B0%D1%98%D0%BD%D0%BE%D0%B2%D0%B8-%D0%BC%D0%B0%D0%BA%D1%80%D0%BE%D0%B5%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D1%81%D0%BA%D0%B8-%D0%BF%D0%BE%D0%BA%D0%B0%D0%B7%D0%B0%D1%82%D0%B5%D0%BB%D0%B8\\_%D0%BC%D0%B0%D1%80%D1%82\\_2021.pdf](https://www.nbrm.mk/content/%D0%9D%D0%B0%D1%98%D0%BD%D0%BE%D0%B2%D0%B8-%D0%BC%D0%B0%D0%BA%D1%80%D0%BE%D0%B5%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D1%81%D0%BA%D0%B8-%D0%BF%D0%BE%D0%BA%D0%B0%D0%B7%D0%B0%D1%82%D0%B5%D0%BB%D0%B8_%D0%BC%D0%B0%D1%80%D1%82_2021.pdf), crp.18.

a complex process, which means making timely and quality decisions on changes in the size and structure of debt. However, what is even worse is the fact that, until the last Public Debt Management Strategy, our country had defined targets (goals) for the level of indebtedness. But the last such strategy of our country does not contain explicitly set quantitative parameters for the degree of indebtedness. Hence, this will be an additional complication in the future in terms of properly maintaining the state and structure of public debt of the Macedonian economy.<sup>13</sup>

During the Covid-19 pandemic *in the Macedonian economy, the gross external debt and the public debt increased*. The indebtedness of our country has increased in the year 2021, and a key question for the sustainability of finances is whether the projected rates of economic growth will be achieved.<sup>14</sup>

The data from the Macedonian Ministry of Finance show that *government debt* in September 2021 compared to the situation at the end of the first half of 2021 decreased by 3.9 percentage points and amounted to 52% of GDP, because of the repayment of the Eurobond in July 2021.<sup>15</sup>

However, the data of the Macedonian National Bank on the movement of the government debt during 2021 indicate that the historically highest values have been reached, with the *gross external debt* at the end of June 2021 amounting to 10,159 million euros (or 87.6% of the projected GDP) and registered a quarterly increase of 353 million euros (or by 3.6%). If the effect of the specific activities for the management of the foreign reserves of the central bank is excluded from the debt, the gross debt registers a quarterly increase of 182 million euros. This quarterly change is a result of *increased private and public debt* (by 98 and 85 million euros, respectively). The quarterly increase in private debt is due to the increased debt of fully related entities (by 98 million euros) and the non-banking private sector (by 20 million euros), amid falling debt of private banks (by 20 million euros). The increase in public debt is due to the increased liabilities of the "government" sector by 73 million euros, while the liabilities of public banks and public enterprises increased by 12 million euros.<sup>16</sup>

In 2017, the gross external debt as a % of GDP in our economy was 73.4%, in 2018 it was 73%, in 2019 it was 72.7%, and in 2020 it was 80.2%.<sup>17</sup> If the effect of the specific activities for the management of the foreign reserves of the central bank is excluded from the debt, the gross debt registers a quarterly increase of 900 million euros.

The analysis of the *public debt* showed that in 2018 it was 5.2 billion euros, in 2019 it was 5.5 billion euros, and in 2020 it was 6.5 billion euros. *At the end of June 2021, public debt in our country amounted to almost 7.4 billion euros while government debt reached a level of 6.4 billion euros. The analysis of the structure of public debt shows that most or 5.1 billion euros is external debt while the remaining 2.3 billion euros is internal debt.*<sup>18</sup> In the domestic market, the largest state creditors are commercial banks, insurance companies and pension funds. Meanwhile, despite the growing trend of public debt growth, "Standard & Poor's" maintained the rating for the country, i.e. confirmed the credit rating BB- with a stable outlook.

In times of the Covid-19 crisis, our country must provide liquidity for the functioning of the Macedonian Budget, but what is especially important will be whether the pace of borrowing will be followed by planned growth rates that will mean debt sustainability in the long run.

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<sup>13</sup> Todorova S., Uzunov V., Petrevska B., "Applied Economy", Cultura, Skopje, p.376.

<sup>14</sup> <https://plusinfo.mk/10-mili-ardi-evra-bruto-nadvoreshen-dolg-kakva-e-sosto-bata-so-avniot-dolg/>, Accessed on 11.10.2021 at 2 p.m.

<sup>15</sup> <https://javendolg.open.finance.gov.mk/#plan-debt>, Accessed on 11.10.2021 at 3 p.m.

<sup>16</sup> [https://www.nbrm.mk/content/statistika/Soopstenija/ND%20NP%20MIP/2021/Soopstenie\\_Dolg\\_MIP\\_Kv.2\\_2021.pdf](https://www.nbrm.mk/content/statistika/Soopstenija/ND%20NP%20MIP/2021/Soopstenie_Dolg_MIP_Kv.2_2021.pdf), Accessed on 11.10.2021 at 4 p.m.

<sup>17</sup> National Bank of the Republic of North Macedonia, 2021, "Financial Stability Report in the Republic of North Macedonia in 2020", NBRM, Skopje, August 2021, p.23.

<sup>18</sup> <https://javendolg.open.finance.gov.mk/#years-debt>, Accessed on 11.10.2021 at 5 p.m.



### III. CONCLUSION

*The analysis in this paper gave the answers to the question of macroeconomic stability in the Macedonian economy in troubled Covid-19 pandemic times. Namely, the analyzed aggregates of macroeconomic stability, such as: price stability, i.e. the existence of a low inflation rate, low unemployment rate and acceptable levels of internal and external deficits, namely the budget deficit and the balance of payments deficit, shows that: these aggregates in the Macedonian economy have not yet stabilized, but on the contrary, they are constantly increasing over the years, especially during the Covid-19 crisis.*

*That was not a situation until a few years ago when the Macedonian economy was within the European criteria for low inflation and a budget deficit of up to 3% of gross domestic product (GDP). However, today, when we are living in a pandemic society, the life of Macedonian citizens becomes more expensive, and there is a price shock, as a result of climate change, reduced agricultural production, insufficient labour, and expensive transport and expensive energy.*

*Unemployment as a parameter of the macroeconomic balance of the Macedonian economy is a special aspect. In short, despite the slight decrease in the unemployment rate in the last 2-3 years, it remains high, in the presence of structural unemployment, which is the most difficult to address. The unemployment rate in September 2021 was 15.9%. In any case, the Macedonian economy is far from achieving macroeconomic balance on the issue of full employment. Serious structural reforms are needed in the short and especially long term to work on as a state and the economy, to achieve this macroeconomic balance.*

*In the Budget of our country in January 2021, a budget deficit of 2,695 million denars was realized. The budget deficit is mostly financed through government borrowing on the domestic market, and to a lesser extent through the use of government deposits with the National Bank. The realized budget deficit represents 7.7% of the deficit provided by the Macedonian Budget for 2021. That is, the Macedonian economy has a budget deficit above the Maastricht criterion. These performances, among other things, are a clear signal of concern for the sustainability of the budget deficit.*

*Regarding the foreign trade and balance of payments deficit, the Macedonian economy is characterized by a consistently high external economic imbalance (high trade deficit). This is primarily a reflection of the high import dependence on the relatively cheap exports of Macedonian economy, whose vulnerability is even greater due to the high concentration of exports in only a small number of sectors. In the fourth quarter of 2020, the current account deficit in the balance of payments amounted to 72.4 million euros, or 0.7% of GDP, while in the financial account in the fourth quarter of 2020, net outflows of 32.3 million euros were realized (or 0.3% of GDP). The deficit in foreign trade in January 2021 narrowed by 29% on annual basis, amid higher growth of exports than the growth of imports of goods. The total foreign trade is higher compared to the same period of the previous year, so the recovery from the initial strong shock caused by the Covid-19 pandemic continues in the year 2021.*

*In terms of debt, we can conclude that in recent years our country spends significantly more than its economy can create. Therefore, the total public debt of the state is constantly growing. At the same time, both external and internal debt are growing. During the Covid-19 pandemic in the Macedonian economy, the gross external debt and the public debt increased. However, the data of the Macedonian National Bank on the movement of the government debt during 2021 indicate that the historically highest values have been reached, with the gross external debt at the end of June 2021 amounting to 10,159 million euros (or 87.6% of the projected GDP) and registered a quarterly increase of 353 million euros (or by 3.6%). At the end of June 2021, public debt in our country amounted to almost 7.4 billion euros while government debt reached a level of 6.4 billion euros. The analysis of the structure of public*

debt shows that most or 5.1 billion euros is external debt while the remaining 2.3 billion euros is internal debt.

So, in the end, we can conclude that viewed collectively in terms of all these parameters, the assessment shows that the Macedonian economy in 2021 maintains macroeconomic stability in terms of controlling inflation, but in terms of other parameters, it still does not exist or is worsens. This makes the overall macroeconomic situation very vulnerable in both the short and long term. It can easily happen that the Macedonian economy finds itself in a situation of completely disturbed macroeconomic balance, which will have major negative consequences on the entire economy and a decline in the living standards of citizens. To maintain macroeconomic balance, reforms and restrictions on public (and possibly personal) consumption will be necessary for the future.

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