



Comparative analysis of budget expenditures of North Macedonia for 2020/2021

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Abstract

The failure of economies based on central socialist planning is one of the most significant economic events of the XXI century, it happened that also appeared as the main challenge of economic theory and policy so far nationally and globally.

The processes of globalization and integration have mostly affected the countries in transition, which for more than a decade and a half are in the process of transforming the economy and macroeconomic institutional construction within the market economy.

The management of the former socialist economies in a historical process of transition still unfinished towards a market economy has been realized mainly with the assistance and under the supervision of the main international financial institutions. Cooperation of transition economies with the International Monetary Fund and the World Bank in the process of implementing economic reforms has been the only alternative available to countries in transition. Countries in transition throughout the period of transformation of the former socialist system towards the most advanced, ie towards the construction of a more stable economic system, that of the market economy has always been characterized by high inflation, in which the forecasts for a rapid economic growth have stalled. The context in which the budget of the Republic of Macedonia was projected throughout the transition period has been

consulted and designed according to the directives of the arrangements of international organizations such as the IMF, in correlation with the specifics and the real economic potential of the RNM.

A significant exception was identified during 2020-2021, these years in which fiscal policy was completely contrary to the defined and oriented objective mainly in financing the war against Covid-19, respectively the financing of the Ministry of Health and the Ministry of Economy.

Presentation

The collection of revenues as well as the realization of expenditures to meet the needs of the state is done through specialized financial institutions, these institutions are: budget and funds.

Budget procedure is the activity of state bodies, which is defined by law and aims to compile, certify, approve and implement the budget.

The drafting of the budget proposal is the first phase of the administrative bodies. So, the right of initiative for drafting the budget is in the hands of administrative bodies-financial bodies, because these bodies know their needs and public needs, economic situation and budget policy. So, the finance body encourages the initiative for drafting the budget. Eg in the US - the head of state is responsible for drafting the budget and proposes the budget revenues and expenditures of the Congress. In France - the head of government defends the budget proposal before parliament, etc.

When drafting the budget proposal, it is very important to accurately plan the revenues and budget expenditures, which requires that experts, when drafting and proposing the budget should not only recognize financial problems, but also monetary problems. development problems as well as other problems. Without recognizing these problems it is impossible to draw up a realistic budget plan.

So, the task of those who compile the budget is to accurately plan revenues and expenditures. Revenue and expenditure planning is done through two methods, as the most important:

1. direct evaluation method

2. automatic evaluation method

The direct valuation method is based on the real realization of public revenues and expenditures in the previous period (last year), but correcting it with the eventual change of the amount (revenues and expenditures) for the next period.

The automatic valuation method is based on the increase of expenditures and revenues realized in the previous year, relying on a kind of automation (taking the amounts of revenues and expenditures from the previous year and their automatic entry in the budget) . This method is not used today because it is inaccurate in planning public revenues and expenditures.

The budget proposal or draft is drafted by the financial body-secretariat for finance.

The draft budget, the budget proposal and the budget itself consist of two parts:

a) the general part

b) the special part

The total part of the budget contains the total amount of projected revenues and expenditures, the budget reserve for the following year, the measure for budget execution and maintaining the budget balance, etc.

The special part of the budget contains the detailed ranking of expenditures according to the direct users of the funds as well as according to the specific purpose.

Ministry of Finance - the secretariat for finance submits the draft budget or proposal to the relevant representative body for approval. Budget approval belongs to constitutional law as well as financial law.

The technique of reviewing and approving the budget is not the same in all countries.

The budget approved by the assembly does not mean to be the same, as proposed by the government (ministry). Delegates have the right in their councils to make changes to introduce amendments (improvements, corrections) to the government budget proposal. The draft budget prepared by the financial bodies is sent to the executive body.

The budget of the Republic of Macedonia is approved by the Assembly of the Republic. The municipal budget is approved by the municipal assembly. Prior to the approval, the draft budget is reviewed by the committees of the representative bodies, after which it goes to the plenary meeting. Based on the report of the budget council, the budget debate takes place. The budget is then voted on, which is thought to have been approved on election day. The approved budget is announced. According to the law, the budget must be given to each interested person.

After the approval of the draft budget, the budget execution phase is passed. By budget realization we mean the realization of revenues and expenditures, on the one hand, and the financing of social needs on the other hand, that is, the realization of the budget aims at collecting the planned funds and spending them for purposes which are part of budget.

Administrative bodies for budget execution are divided into: **principals (Mandators) and accountants**. These bodies have the duty to collect revenues and spend them for certain purposes, to keep records and to be accountable for the collection of revenues and the realization of public expenditures.

Mandators are state bodies that have the right to take care of the collection of state revenues and decide on their expenditure in the respective budget year. The principals are: the executive council of the republic and the elders of the municipal assembly.

Accountants have the right and obligation to collect revenues, conduct expenditures and use budget funds. Accountants have the right to take care of the condition of the property,

its preservation and fair manipulation. They do not have the right to have budget funds independently.

Budget execution as an annual plan of revenues and expenditures is tied for one year. In the budget year we distinguish: **fiscal year** and **calendar year**. The fiscal year starts on **1.IV** and ends on **31.III** of the following year, while the calendar year starts on **1.I** and ends on **31.XII**.

The budget year consists of two systems:

- 1. budget year system and**
- 2. system of the calculation year.**

The system of the budget year is based on the fact that all fiscal revenues and other revenues realized during a year, as well as public expenditures made up to the end of that year belong to that budget, e.g. if the collection of revenues is done on 31.XII of the respective year, then those revenues belong to that budget, however, if the collection is done on 1.I, then it is calculated in the next budget.

The budget year lasts 12 months and usually coincides with the calendar year.

The system of the calculation year lasts longer than the budget year (from 1 - 3 months). The calculation year aims to do the accurate planning of inputs and outputs. The calculation of the calculation year is very complicated, it slows down the compilation of the final budget account, it enables the expenditure of expenditures as desired, etc. Both systems are quite important, but most of the authors are for the budget year system, because all budget revenues and expenditures close on the day the budget year ends.

By budget reserve we mean a lot of funds in the budget without specific purposes, which can be used to finance unpredictable needs. Thus, the budget reserve is used when, during the execution of the budget, there is a need for financing the needs and tasks for which the budget does not provide funds or is provided in insufficient amounts.

The final budget account is mainly made up of two parts:

1. the general part
2. special part

In the general part of the final account can be seen the amount of budget reserve, which was realized in the previous year, can be seen the distribution of surplus revenues - budget surplus, or the amount and manner of covering the budget deficit.

In the separate part of the final account are reflected all budget revenues and expenditures in parallel, presenting the planned and realized values.

Study review

BUDGET OF THE REPUBLIC OF NORTH MACEDONIA FOR 2020 - 2021

The defined strategic priorities of the Government of the Republic of Northern Macedonia for 2021 are the basis of the fiscal policy for the medium term and the budget for 2021.

The strategic priorities in 2021 are:

- sustainable and accelerated economic growth, increase of quality and living standards of citizens;
- treatment of the global coronavirus COVID 19 pandemic;
- successful development of membership negotiations in the European Union;
- rule of law, independence of the judiciary, sustained and non-selective fight against crime and corruption with wide and mandatory transparency;
- quality education available to all on demand in the labor market;
- Modern and efficient digital administration based on digitalization that provides quality and fast services to citizens and businesses;
- Full implementation of the Ohrid Framework Agreement and the construction of a civil state with ethnic and social cohesion based on the principles of tolerance and mutual respect; and
- Environmental protection, green development, reduction of air pollution and the impact of climate change.

The next fiscal year is characterized by the still present unpredictability regarding the duration and intensity of the global health pandemic, its implications for the budget and the economy as a whole, and the laying of the foundations for solid economic recovery and rapid growth. Despite the current risks associated with the health crisis and taking into account the four packages of economic measures implemented so far, the forecasts in the Budget for 2021 are expected to ensure the sustainability of domestic economic activities and jobs, to recover certain activities. Ensuring the stability of social transfers and providing policies that will continue to help implement a rapid exit strategy in order to keep up with the positive trends of the Macedonian economy.

The total revenues of the Budget of the Republic of Northern Macedonia for 2021 are planned at the level of Denar 212.6 billion and are 8.3% higher compared to the second Supplementary Budget 2020, while expenditures are planned at the level of of 247.5 billion denars. or 2.1% lower compared to the second Supplementary Budget 2020.

Thus, the planned revenues and expenditures result in a budget deficit at the level of 4.9% of the planned GDP or in the absolute amount of Denar 34.9 million. The planned deficit is in line with the commitment to fiscal consolidation, accompanied by further budgetary discipline, and has provided fiscal space to support the local economy and citizens and the implementation of infrastructure projects.

In the table below (Table no.1) we present the synthetic data of the budget for 2020 and 2021

Table No.1 Budget of the Northern Republic of Macedonia (in millions of denars)				
	2020	2021	Difference 2020-2021	Difference 2020-2021 (%)
General revenue	196,343	212,630	16,287	8.3
Revenues from taxes and contributions	174,271	186,282	12,011	6.9
Tax revenues	109,218	117,982	8,764	8
Revenues from Contributions	65,053	68,300	3,247	5
Non-tax revenues	15,123	16,954	1,831	12.1
Capital Revenues	2,139	3,187	1,048	49
Donations	4,810	6,207	1,397	29
General expenses	252,838	247,567	-5,271	-2.1
Subsequent Expenses	233,775	223,592	-10,183	-4.4
Salaries and allowances	30,143	31,394	1,250	4.1
Goods and services	17,997	21,322	3,325	18.5
Transfers	21,440	21,315	-125	-0.6
Subsidies and transfers	37,311	19,431	-17,880	-47.9
Social transfers	118,584	120,653	2,069	1.7
Interest	8,299	9,478	1,179	14.2
Capital Expenditures	19,063	23,975	4,912	25.8
BALANCE BUDGET (deficit)	-56,495	-34,937	21,558	-38.2
financing	56,495	34,937	-21,558	-38.2
Revenues	98,602	78,290	-20,312	-20.6
From Local sources	36,287	23,437	-12,850	-35.4
From external sources	65,052	53,542	-11,510	-17.7
Deposits (without accumulated deposits)	-2,737	1,311		
The exits	42,107	43,353	1,246	3.0
Local debt payment	15,252	6,119	-9,133	-59.9
Payment of external debt	26,855	37,234	10,379	38.6
Memorandum				
Net Loans from the country	21,025	17,008		
Net Loans from the country (Continuity of securities)	21,515	18,448		
Net loans from abroad	37,707	15,808		
Primary budget balance	-48,196	-25,459		
Primary budget balance % of Budget	-7.2	-3.6		
BUDGET BALANCE SHEET ,of GDP	-8.5	-4.9		

The budget projections for the 2021 budget are based on the following assumptions:

- realization of revenues in the current year 2020,
- expectations for economic performance in the coming year,
- tax policy aimed at improving tax revenue collection, greater tax extension, fair and facilitated administrative processes, as well as support for the private sector, which would result in reducing tax evasion, and
- strengthening mechanisms for reducing the informal economy.

Tax revenues for 2021 are planned in the amount of about 118 billion denars with an increase of 8% compared to the second Supplementary Budget 2020. In the structure of planned tax revenues, the value added tax has the largest weight, 44.3 %, while excises occupy 21.4%.

The total expenditures in the Budget for 2021 are planned in the amount of Denar 247.5 billion, or 2.1% less than the plan for 2020. The budget expenditure projections for the next year have been prepared based on the following assumptions:
Elaborimi i Tabelës 1 (Buxheti i RNM për vitin 2020-2021)

Central budget revenues

Revenues from taxes and contributions

Revenues from taxes and contributions from 2021 compared to v. 2020 are planned to have growth. In 2020, revenues from taxes and contributions were planned in the amount of 174 billion denars, which shows that in 2021 we have an increase of 6.9% and reach up to 186 billion denars. Revenues from taxes and contributions consist of tax revenues and revenues from contributions.

Tax revenues in v. 2020 compared to v. 2021 it is seen that we have an increase in 2021, and that from 2020 tax revenues were in the amount of 109 billion denars, where it is seen that in 2021 we have an increase of 8% and reach up to 118 billion denars, while

Revenues from contributions in v. 2020 compared to v. 2021 it is seen that we have an increase in 2021, also that from 2020 the revenues from taxes from contributions were in the amount of 65 million denars, where it is seen that in 2021 we have an increase of 5% and reach up to 68.3 billion denars

Non-tax revenues

Non-tax revenues for v. 2021 have been planned in the amount of 15.1 billion denars, which compared to v. 2020 is the largest increase, reaching the value of 16.9 billion denars, which means that we have an increase of 12.1%.

Capital revenues

Capital revenues in the central budget for v. 2021 are planned in the amount of 2.1 billion denars, which are foreseen to be realized by the sale of social housing and construction land as well as deposits. Capital revenues in 2021 reach the value of 3.2 billion denars, which shows that we have an increase of 49% compared to 2020.

Donations

Donations to the central budget for v. 2021 are planned in the amount of 4.8 billion denars, which shows that we have an increase of 29% compared to 2020 and reach the amount of 6.2 billion denars.

Expenditures (expenditures) of the central budget

The total expenditures of the central budget are planned in the amount of MKD 252.8 billion, which represents a low nominal increase of 2.1% more compared to v. 2021, which is in line with the planning of the Government of the Republic of Macedonia for rational spending of budget funds and which reaches the value of MKD 247.6 billion.

Subsequent costs

Expenditures for the following expenditures in 2020 were planned in the amount of 233.8 billion denars, which are very high compared to 2021, which is clear that in 2021 we have a reduction of subsequent expenditures by 10, 1 billion denars or 4.4%.

The following expenses include: salaries and allowances, goods and services, transfers, subsidies, social transfers and interest.

Expenditures for salaries and allowances are planned in the amount of MKD 30.1 billion for 2020, while in 2021 they are planned to spend about 4.1% more than in 2020. This type of salary planning includes the effect of reducing unemployment and increasing the salaries of state employees, in 2020 are planned in the amount of about MKD 18 billion, while in 2021 they have increased by about MKD 21.5 billion, which shows that we have an increase of MKD 3.3 billion or 18.5%, ie expenditures of goods and services have increased by 18.5% compared to 2020

Transfers for v. 2021 are projected at a height of 21.3 billion denars which represents an uninvestigated reduction of 0.6% compared to v. 2020, in the amount of 21.4 billion denars. Subsidies for v. 2021 are projected at a height of 19.4 billion denars which represents a drastic reduction of 47.9% compared to v. 2020 where their value was 37.3 billion denars.

The transfer of the Pension and Disability Insurance Fund is planned to increase by 1.7% compared to v. 2020. The value of social transfers from 2020, where they were planned to reach the amount of 118.6 billion denars, in 2021 increased to 120.7 billion denars. The framework of these funds provides funds to cover the costs of pension system reforms.

Interest

Interest payments in v. 2021 are planned at a higher level compared to v. 2020 for 14.2% as a result of the increase of interest liabilities.

Capital expenditures

In the part of capital expenditures for v. 2021 are projected to increase assets by 25.8% compared to v. 2020 where the priority is the timely implementation of investment projects.

Capital expenditures for v. 2021 reaches the amount of 24 billion denars, which in 2020 were planned in the amount of 19 billion denars, ie close to 4.9 billion denars higher.

Budget deficit and financing

In v. 2021 budget deficit will reach 34.9 billion denars or 4.9% of planned gross domestic product (GDP), compared to 2020 where the deficit reached 56.5 billion denars, so the deficit for 2020 has been more high by about MKD 21.6 billion compared to 2021.

The deficit mainly for 2020 and 2021 is financed by loans from the country and loans from abroad through privatization funds, use of deposit funds in the NBRM (National Bank of RNM), revenues from the section and the medium-term issuance of securities. value, also for 2020 in the amount of 21.5 billion denars and for 2021 in the amount of 18.4 billion denars

Conclusion

As a conclusion of all that we have analyzed above, we can easily conclude that the budget of the Republic of Northern Macedonia during 2021 is stabilizing, social and reforming in its character.

In the first place, the central budget is in function of maintaining macroeconomic stability, by supporting the monetary policy objectives for maintaining exchange rate and price stability in conditions of trade deficit.

The social dimension expressed through the significant share of social transfers with the budget of 2021 predicts an inclusion of 120.6 billion denars in total budget expenditures.

Reforms in the enterprise and public administration sector are foreseen to be realized through transfers to these participating destinations with Denar 21.3 billion of expenditures. Also, the reforms foreseen in the pension insurance will cause high transition increases, respectively the increase of the IPS deficit that results with the increase of the transfer from the budget, as well as the anti Covid 19 measures for overcoming the pandemic.

The development component of the budget for 2021 will be provided through a significant increase in capital expenditures. The projected increase in these expenditures is in the direction of intensifying public investments as an impetus for the revival of economic activity.

The projected central budget deficit in the amount of MKD 34.9 billion of the country's gross domestic product basically determines the character of the budget, ie leaves no room for the development dimension of the budget.

Only a balanced budget is a stable and useful budget for a country's economy and population, says classical economic theory.

The basic rule of the modern budget is that the budget should never be balanced, except when the surplus to cut inflation is replaced by the budget deficit in the fight against recession.

As we can see that the draft budget of v. 2021 relies on the analysis of clearly designed criteria and better harmonized with the medium-term budget program which takes into account and further improves the budget and fiscal parameters by better coordinating the country's objectives in the integration processes.

This budget ensures the sustainability of economic development, consolidation, macroeconomic stability and fiscal sustainability based on the priority objectives set by the government in cooperation with the International Monetary Fund and the World Bank.

Even this year in the budget of y. 2021 special attention has been paid to the budget investment program in order to improve the situation we are in, overcoming the pandemic, improving the infrastructure, road system, water supply network with the ultimate goal of meeting the needs of population.

Also, the sectors of health, education, social services, etc. have not been left out. This program covers the measures taken by the Government of the Republic of Northern Macedonia to cope with the consequences of the health pandemic.

The first measures of the Government of the Republic of Northern Macedonia to deal with the pandemic were aimed at preserving the health of the population and amortizing the consequences of the economic crisis caused by factors of non-economic nature. Given that the intensity of the Covid-19 pandemic is still high and the current measures to prevent its spread would affect the gradual recovery of economic activity, the Government of the Republic of Northern Macedonia will continue to increase support for the economy and citizens, protection of the liquidity of the economy, protection of jobs and care for the vulnerable categories of the population. To ensure sustainable economic growth in the coming period the Government will envisage targeted measures to revive the economy in the phase of gradual relaxation of measures to prevent the Covid-19 pandemic and greater support for companies in the post-crisis period, with aimed at increasing competitiveness, productivity, modernizing equipment and processes, and creating jobs.

The 2021 budget has three main objectives:

(1) strengthening the financing of the health care system and preserving the health and life of citizens,

(2) supporting economic stabilization and laying the foundations for strong economic recovery and accelerated growth, and

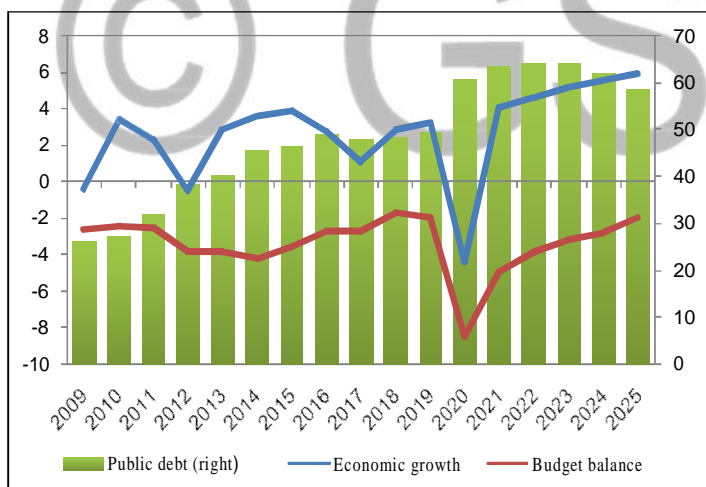
(3) smooth funding of basic state functions and support for justice reform and Euro-Atlantic integration (EU and NATO).

Fiscal consolidation and budget policy redesign are key elements of fiscal policy to support macroeconomic stability, accelerate economic growth, and strengthen the growth potential of the domestic economy. Planned fiscal consolidation covers three main aspects:

- Improving the collection of budget revenues, through measures to reduce the shadow economy, measures to prevent and suppress corruption, strengthen inspection controls, etc. ;
- reduction and restructuring of budget expenditures, cutting non-priority and non-essential expenditures, greater support for the private sector, etc.

The budget for 2021 is an integral part of the medium-term budget framework and the medium-term planning process 2021-2025, in support of the economic strategy of the Government of the Republic of Northern Macedonia, as well as an integral part of the Strategy for Economic Recovery and Accelerated Growth.

Chart 1. Budget deficit and public debt (% of GDP) and economic growth (%)



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