

# **THE BUDGETING PROCESS IN THE REPUBLIC OF NORTH MACEDONIA DURING COVID-19 PANDEMIC**

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## **ABSTRACT**

The budget is the most important part in the economy of a country, where through the process of preparation of budget proposal, budget control, budget approval and budget execution, the public can have clear overview of how the state budget is approved in line with the requirements and priority needs of the society.

As the budget of any country worldwide was burdened with specific expenditures during the COVID-19 pandemic period, the aim of this paper is to address the budget process in North Macedonia, during the period of COVID-19 pandemic, capturing the years of 2019, 2020, 2021, making comparisons between years, and see how the budget has progressed during the observed crisis period. In this regard, the purpose of this paper is to understand more clearly the budgeting process in North Macedonia through research, analysis and comparison. The topic of the research is treated from the theoretical aspect by using the normative method and analytical method, graphic images and comparisons between budgeting data between years of 2019, 2020, 2021. The study concludes that budgeting as a tool of state responsibility, a management tool and an instrument of economic policy, throughout fiscal policy framework, has three main functions: shows the direction of the economy and expresses the intention for the use of economic resources, serves as a tool for reducing inequalities and as a tool for achieving and maintaining the sustainability of macroeconomic stability.

## **KEYWORDS**

Budgeting process, planning, North Macedonia.

## **JEL CLASSIFICATION CODES**

G31, O20, 029

## **1. INTRODUCTION**

In general, the budgeting process is a systematic overview of all revenues and expenditures that the state will realize during a planned period, i.e. during a budget year. The financial law in the budget sees a series of norms that regulate the relations between state bodies that are obliged to anticipate, realize and use public funds. Attaching to the topic, it should be emphasized that budgeting process is the decision-making process for the allocation of public resources for the government's policy priorities. Also, the budgeting process is a set of rules (formal and informal) that enable the executive to make decisions that will lead to the preparation, approval of the budget by the Assembly and finally its execution (Bundo, 2012). As an instrument of economic policy, the budget has six functions: shows the direction of the economy and expresses the intention for the use of economic resources, serves for reducing the inequalities and ensures long-term financial stability, develops policies that

are also responsible for improving the long-term financial planning and focuses on the desired results where the budget describes the way the state manages the national resources.

The state government budget is the main financial instrument for the implementation of the economic and social policies of the state and as such the national budget of each country is the amount allocated by the government to public budget organizations. The goals and output indicators must be determined by the managers of these budget organizations, within the parameters of the available resources, given in the budget circulars and which are also a reflection of national priorities. The budget is one of the instruments for financing public expenditures, for which there are different definitions. The differences in its definition come from the differences in the approach to the study of that instrument, whether the economic, legal, political and financial component dominates during the study of the budget. In most of Europe and abroad, the definition is used, which means the state's expenditure and revenue plan for specific purposes and users in precisely defined periods of time (Dzidas, D *et al*, 2006). Budget beneficiaries are the beneficiaries of funds from the budget and from the sphere of legislative, executive and judicial power. Institutions from the sphere of education and science, culture, social protection and child protection, judiciary and prosecution, according to the Budget Law, are categorized as users, individuals of funds from the state budget and are financed through budget users from the relevant sphere. The Ministry of Finance maintains a register for the users of budget funds and their users as individuals. It should be noted that in addition to budget revenues and expenses, the income of each user and individual user is also an integral part, which comes from: income paid by the body, income from activities that are not financed by the budget (self-financing activities) income from donations, and income from loans as well as the expenses that the users and the individuals who use them realize from these incomes (Dzidas, D *et al*, 2006). The budget is an annual plan for financing the functions and obligations of the Republic of North Macedonia, it consists of the annual assessment of income and expenses according to sources, respectively according to destination. The budget also includes the income and expenses of the funds (Pension and Disability Insurance Fund, Health Insurance Fund, Employment Agency, Road Fund and other funds determined by special laws) (Komoni, 2008). As such, the budget of the Republic of North Macedonia is the basic financial institution of its political-territorial union, with which the monetary expenses and incomes are foreseen according to the plan, depending on the character of the production relations, both for the following tasks and for the tasks in the perspective, which are sanctioned by the representative body. The purpose of the research is to outline, on descriptive grounds, the budgeting positions in North Macedonia, during COVID-19 period, capturing the years of 2019 and 2020, as well as post-COVID period referencing the year of 2021, on comparison basis and hence, see the post-COVID-19 economic recovery in North Macedonia, through comparisons of budget positions between the years of 2020 and 2021. The performed research relies moreover on a descriptive nature rather than empirical one, by addressing the research question related to economic enhancement, if the post-COVID-19 economic recovery in North Macedonia came out throughout expansionary fiscal policy, which in general is mainly manifested by the increase of public expenditures on capital investments positions of the budget. The contribution of this research is to address through budget positions the post crisis period of one country, like it is the case with North Macedonia and learn new experiences how one country can deal with post-crisis period in order to outline a growth prospect in medium run.

## **2. PUBLIC REVENUES AND EXPENSES DURING COVID-19**

### **2.1.Public revenues**

Public revenues are an important concept of public finance, and refer to the revenue of governing from various sources. Dalton (2003) in the "Principles of Public Finance" mentioned two types of public income. Public revenue which includes tax revenues and benefits as well as services of public enterprises, like income from administrative activities such as tariffs, fines, etc and gifts and grants. On the other hand, public bills include all government income received from formal sources (Bexheti, 2017). Although there are many definitions of public income, depending on the researcher's view, generally they can be defined as the financial means by the state and other public-law bodies to finance their public spending arising from the realized

performance in the previous year. From this definition two main characteristics of public revenues can be derived, i.e. as a financial means, the public revenues are realized by the state and other state bodies, based on fiscal sovereignty and are intended for financing of public expenditures resulting from the performance. Legal tax transfer shows who is legally responsible for tax. Situations differ radically about the fact that who really holds the burden. Since prices vary depending on the tax, the recognition of legal transfer, in essence, tells us nothing about who really pays the tax. On the contrary, economic tax transfer represents the change in the distribution of real private income caused by tax. The development of public income is organically linked to the development of the state, functions, the form of socio-political regulation and the degree of economic development. The main sources of public revenues are taxes. Although there are some definitions for taxes, it can be said that tax is giving in cash, which the state accumulates from individuals and legal entities on the basis of its power, without direct reward, to cover public expenses (Rosen, 2014). The following table and figure show the distribution of public revenues in North Macedonia, during the years of 2019 and 2020, which are mainly characterized as pandemic years of COVID-19.

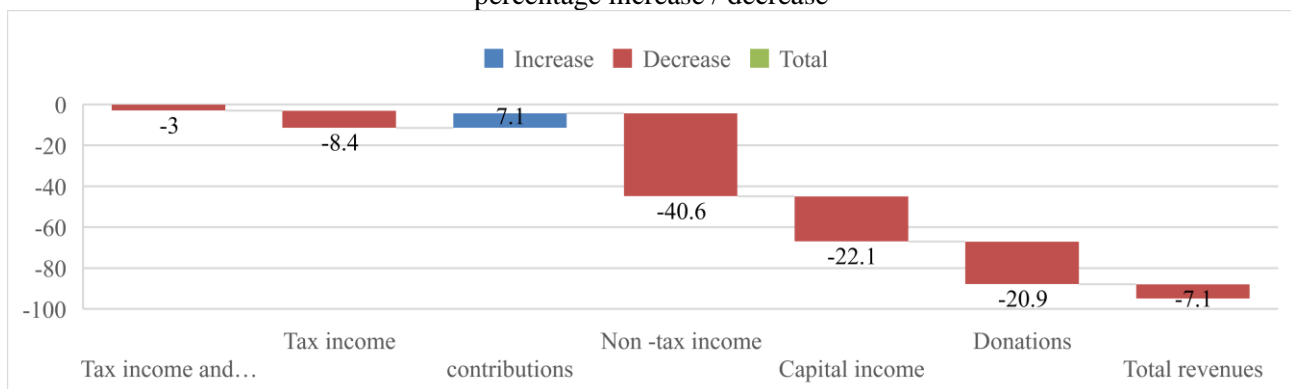
Table 3. Total Revenue of the Republic of North Macedonia for 2019 and in 2020, in millions of denars

Years	2019	2020	Comparison 2020 - 2019	%
Tax income and contributions	178,894	173,464	-5,430	-3.0
Tax income	116,728	106,900	-9,828	-8.4
Contributions	62,166	66,564	4,398	7.1
Non -tax income	18,800	11,173	-7,627	-40.6
Capital income	2,369	1,846	-523	-22.1
Donations	3,883	3,071	-812	-20.9
Total revenues	203,946	189,554	-14,392	-7.1

Source: Ministry of Finance of the Republic of North Macedonia (State Budget Account in 2019, 2020)

Total income in the year 2019 was generated in the amount of 203,946 million of denars, which is 96.9% of the estimated revenue for 2019. While total revenue in 2020 was generated in the amount of 189,554 million, which is 96,5 % of the projected income for the year of 2020. On comparison basis, between the years 2020 and 2019 significant negative difference of total generated income can be noted, at about -7.1 %, as outlined in figure 1, and shown in table 1, mainly due to COVID-19 pandemic. Contribution factors of negative public revenues are tax revenue and contributions between with -3.0 %, non-tax revenues with significant amount of -40.6 % and capital revenues with -22.1 %, as well as donations which are presented with a comparative value of -20.9%.

Figure 1. Comparison of public revenues between the years 2020 and 2019 expressed in terms of percentage increase / decrease



Source: Ministry of Finance of the Republic of North Macedonia. (State Budget Account in 2019, 2020) and author's calculations

## 2.2. Public expenses

Public expenses are financial resources which are used for providing the supply of public goods, as well as to releasing other objectives of economic and social policy. The objectives of the public operator, whether social order or other public needs, are mainly realized through public spending. Public expenditures are funded by various sources such as: demobilization of existing property (sale or borrowing in property exploitation) or maintaining of with public assets. Public expenditures are covered by public income, which are very closely linked, and it can be said that public income is the other side of the state financial activities in the field of financing duties, activities, goals and powers of the state of other public legal bodies. If there is a need to increase public expenditure, there is a problem of increasing funds, which will cover increased public spending, i.e. their financing, which at the same time opens up problems with public income increases. Public spending system is set with different specifications, depending on the social, economic and political regulation, the economic system, the fiscal system, the fiscal regulation and territorial organization, as well as other factors, but in essence in all states the goal is the same, the system of public expenditures ensure the efficient realization of obligations arising from public revenues. In functional economic systems, the central budget, usually governance the financial resources on efficient basis, by allocating them to the necessary needs the society has, and hence provide wellbeing standard on equal basis. North Macedonia, since its independence, inherits a system of public spending, which was adequate to financing public needs as an independent state. The public expenditure system should be conceived in such a way that it will enable the avoidance of deficiencies at all stages of public expenditures, from planning, to the implementation act and controlling process. The system of public spending at their planning stage should apply the methods and techniques of calculating and measuring expenses for public services and effects from "cost-benefit" analysis, because today it is widely accepted standard that productivity of the public sector is generally lower than that of the private sector (Sarmad & Mohiuddin, 1991).

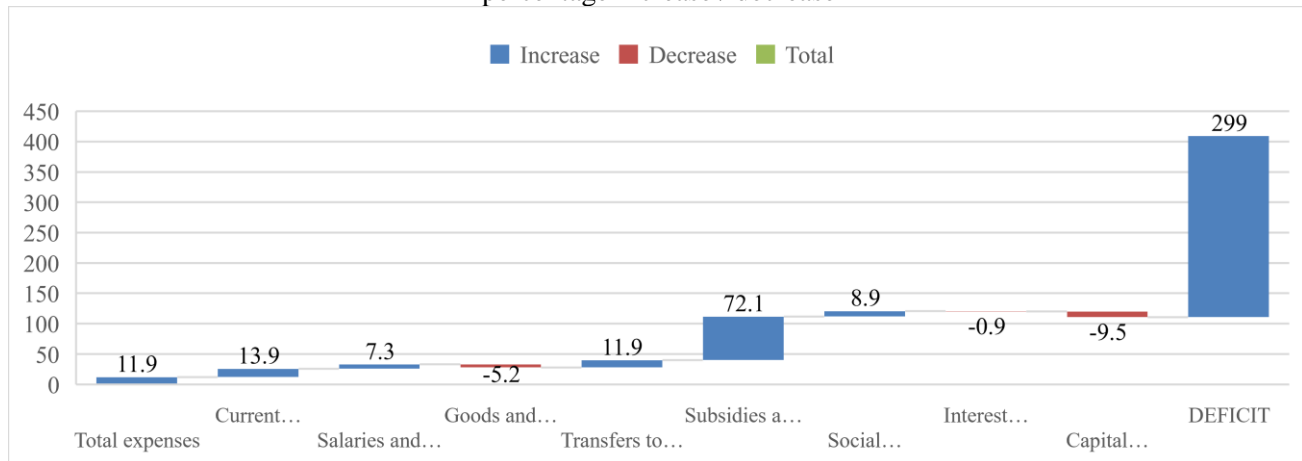
Table 2. Public expenses of the Republic of North Macedonia for 2019 and in 2020 (million MKD)

Years	2019	2020	Comparison 2020 - 2019	%
Total expenses	217,447	243,421	25,974	11.9
Current expenses	199,634	227,306	27,672	13.9
Salaries and additions	27,754	29,775	2,021	7.3
Goods and services	16,265	15,423	-3,002	-5.2
Transfers to local government	19,097	21,373	2,276	11.9
Subsidies and transfers	20,285	34,905	14,620	72.1
Social transfers	108,131	117,799	9,668	8.9
Interest payments	8,102	8,031	-71	-0.9
Capital expenses	17,813	16,115	-1,698	-9.5
DEFICIT	-13,569	-53,867	-40,366	299

Source: Ministry of Finance of Republic of North Macedonia (State Budget Account in 2019, 2020)

In the year of 2019 public expenses were 217,447 million denars. The overall budget expenses of the Republic of North Macedonia in 2020 was in the amount of 243,421 million denars, which is 96.3% realized level compared to forecasts. The expense part in 2020 is the result of measures taken in the fight against the crisis caused by Covid-19. Analyzing on comparison basis between the years of 2020 and 2019 total costs are increased by the amount of 25,974 million of denars (11.9% increase between years), the current costs over the years are increased by 27,672 million of denars (13.9% increase between the years), goods and services in the comparison between the years of 2020 and 2019 were decreased by -3,002 million of denars (- 5.2% decrease between years) and capital expenditures between two years were decreased by -1,698 million of denars (-9.5%).

Figure 2. Comparison of public expenses between the years 2020 and 2019 expressed in terms of percentage increase / decrease



Source: Ministry of Finance of Republic of North Macedonia. (State Budget Account in 2019, 2020) and author's calculations

### 2.3. The approval process of the state budget throughout institutional channels

The budget process is the decision-making process to allocate public resources to government policy priorities. Through the budget process that the government acquires the authority of parliament to spend relevant money through the adoption of annual acts of budget allocation and other legislation that sets out special allocations. The budget process is a set of rules (formal and informal) that enable the executives to make decisions that will lead to the preparation, approval of the budget by the Assembly and eventually its execution. In the budget process, the government determines the budget plan (as well as the planned revenues and expenses), upon which plan decisions to distribute budget funds are made. This distribution is a useful tool to ensure the country's effective management and makes the budget process significant. The basis for the preparation of budgets are the strategic priorities of the Government of the Republic of North Macedonia, the fiscal strategy, the proposed strategic plans of the budget users and budget policies, as well as the priorities of the municipalities. The proposal of the Budget of the Republic is approved by the Government and sent to the Assembly for approval, no later than the middle of November. The budget is prepared on the basis of macroeconomic policy and the projection of macroeconomic aggregates for the year for which the budget is approved. The Minister of Finance is responsible for preparing the Budget of the Republic of North Macedonia and submitting it to the Government. The mayor of the municipality is responsible for preparing the municipal budget and submitting it to the municipal council (Dzidas, 2006).

The Assembly of the Republic of North Macedonia examines the proposed budget governmental budget, 20 days after its submission by the government. The Minister of Finance presents the draft budget of the Republic of North Macedonia to the Assembly of the Republic of North Macedonia. In the budget approval procedure, any increase in the proposed approved funds must be followed by a corresponding reduction in other proposed approved funds. The reserve in the project budget cannot be reduced to increase another item of approved funds. Every assembly deputy, as well as parliamentary groups, has the right to submit amendments to the draft budget. A copy of each amendment must be handed to all MPs before the debate begins. The debate on the draft budget is held in the December session. The Minister of Finance is obliged to present the draft budget to the Assembly. A precisely defined protocol is discussed in this session. Initially, the draft budget is debated in general, then after each change separately and finally the text of the draft budget is voted on, the Assembly of the Republic of North Macedonia approves the proposed budget by the government, by December 31 at the latest. The content and procedure for the approval of municipal budgets are determined by the Law on the financing of each local governmental unit (LGU).

### 3. SURPLUS VERSUS DEFICIT LEVEL OF THE BUDGET IN THE REPUBLIC OF NORTH MACEDONIA

According to the principle of the budget balance, the total expenses in the budget must be equal to the total income. It is practically impossible for a given country to realize expenditures equal to the realized revenues during a fiscal year. More often, the budget is characterized by higher public expenditures compared to public revenues, but it is possible for public revenues to be higher than public expenditures. In the first case we say that the state has reached a budget deficit, and in the second case a budget surplus. The budget deficit represents the negative difference between total income and total expenditure (expenditure is greater than income). By law, it is not permissible to have a deficit in the budgets of local self-government units and funds. They can borrow from the budget of the central government due to overcoming the discrepancy between income and expenditure during the year, but until the end of the budget year (until 31.12 of the current year) they have to return the borrowed funds. The budget deficit of the Republic of North Macedonia can be covered by borrowing in the country and abroad, by issuing state notes or tax obligations. According to the existing legal rules, the Government of the Republic of North Macedonia has the right to borrow from people in the country or abroad, also in accordance with the special law on loans, approved by the Assembly of the Republic of North Macedonia. The Central Bank of the Republic of North Macedonia, in the name and for the account of the Republic, manages the issue and withdrawal of state notes. The recording of the debts of the Republic of North Macedonia, as well as the loans granted and guarantees issued, is done by the special organizational unit at the Ministry of Finance.

Table 3. Budget deficit and surplus for the years 2019 and 2020 in Republic of North Macedonia (Million MKD)

Years	2019	2020	Comparison, 2020 over 2019*
Budget deficit and surplus	-13,623	-53,867	-40,244
Funding	13,623	53,867	40,244
Entrances	29,691	95,695	66,004
Other inflows	609	960	351
Foreign loans	8,814	65,247	56,433
Deposits	1,210	-6,859	-8,069
Treasury bonds	19,028	36,347	17,319
Banking institutions	5,345	28,350	23,005
Non-banking institutions	13,683	7,997	-5,686
Sale of shares	30	0	-30
Expenditures	16,068	41,828	25,760
Principal repayments	16,068	41,828	25,760
External debt	5,754	26,567	20,813
Internal debt	10,314	15,261	4,947

Source: Ministry of Finance of the Republic of North Macedonia. (State Budget Account in 2019, 2020).

In 2019 the budget deficit is characterized by higher public expenditures compared to public revenues. In the year of 2020 the budget deficit increased by 40,244 million of MKD, a result which can be attributed to the higher expenses that occurred due to the COVID-19. pandemic. Also, the foreign loans increased by 56,433 million of MKD denars, due to the same reason, a case which made the country to be highly exposed to the loans provided by foreign resources, due country's inability to finance the consequences of COVID-19 from its internal resources.

#### 3.1. Budget execution

The implementation of the budget includes the collection and registration of revenues and other inputs in accordance with the revenue plan, as well as the execution of payments in accordance with the approved means.

During the execution of the budget, it is necessary to effectively and efficiently fulfill the goals of the budget program through transparent procedures. Effectiveness is the achievement of the goals set in accordance with the budget lines within the deadlines, and efficiency is their achievement using a minimum procedure. The collection of revenues and other revenues is done in accordance with the law.

Table 4. Realization of the Budget of the Republic of North Macedonia for 2019, 2020 and 2021 (million MKD)

Years	2019	2020	Comparison 2020 - 2019	%*	2021	Comparison 2021 - 2020	%*
<b>TOTAL INCOME</b>	203,946	189,554	-14,392	-7.1	212,630	23,076	11.31
Tax revenues and contributions	178,894	173,464	-5,430	-3.0	186,282	12,818	7.165
Non-tax income	18,800	11,173	-7,627	-40.6	16,954	5,781	30.75
Capital income	2,369	1,846	-523	-22.1	3,187	1,341	56.61
<b>TOTAL EXPENSES</b>	217,447	243,421	25,974	11.9	247,568	4,147	1.907
Current spending	199,634	227,306	27,672	13.9	199,634	-27,672	-13.9
Wages and allowances	27,754	29,775	2,021	7.3	31,394	1,619	5.833
Goods and services	16,265	15,423	-3,002	-5.2	21,322	5,899	36.27
Social transfers	108,131	117,799	9,668	8.9	120,653	2,854	2.639
Interest payments	8,102	8,031	-71	-0.9	9,478	1,447	17.86
Capital expenditure	17,813	16,115	-1,698	-9.5	24,055	7,940	44.57
<b>DEFICIT</b>	-13,501	-53,867	-40,366	299.0	-34,938	18,929	-140

Source: Ministry of Finance of Republic of North Macedonia. (State Budget Account in 2019, 2020) and author's calculations.

Note: %\* increase (decrease) in 2020 when compared to 2019

The planning of the budget in 2019 was carried out within the amounts planned with the budget, that is, the realization of the income was in accordance with the expectations that were set for the year 2019, while the expenses were carried out regularly and on time. While in 2020, despite the health and economic crisis, the realized budget in 2020 was within the planned amounts, namely the income was realized within the foreseen frameworks, while the expenses were made regularly and on time through the regular payment of salaries, pensions and provided measure funds to support the economy. From the comparisons made for the year 2020 - 2019, the total income was -14,392 million of MKD denars, where it is noted that it is lower in 2020 for -7.1%. The total expenses in comparison between 2020 - 2019 were 25,974, much higher in 2020 for 11.9% due to COVID-19 virus. The deficit compared to the years 2020-2019 is -40,366. In table 4, the budget for post-COVID-19 period is presented also, where is shown a significant increase of total income in comparison to the previous year of 2020, by 11.31 percent, which is an indication of economic recovery, obviously, throughout expansionary fiscal policy, since the value of tax revenue and contributions, as noticed from table 4 (last column), have been increased by 7.16 percent. Also, the value of wages and allowances as well as the value of goods and services, have been increased significantly in 2021, in comparison to 2020, by 5.84 and 36 percent, respectively, which is an indication of evident economic recovery in the post COVID-19 era. Also, the reduced difference in 2021 between income and expenses, in comparison to the previous COVID-19 years of 2020 and 2019, is a sign for stable budget and economic recovery of North Macedonia after the crisis.

#### 4. CONCLUSION

Over the years, the economy of North Macedonia has become more liberalized, with an improved business environment and a more stable economy. During the two years of 2019 and 2020, the global crisis that occurred as a result of COVID-19 significantly affected the economy of the Republic of North Macedonia. COVID-19 has brought unprecedented economic and development challenges. While the country continued to fight

COVID-19 in the years of 2019 and 2020 both in terms of health and economic aspects, a downward economic shift in 2020 is noticed that had a strong impact on the implementation of the Budget of the Republic of North Macedonia, namely an economic challenge where the financial measures taken by the government to prevent the spread of COVID-19 had an impact on the budget and economic activity which later on was reflected in the realization level of income and expenses. The contribution of this article was on descriptive grounds to assess the difference in economic performance of North Macedonia, between two periods, stable – pre COVID-19 period captured by the year of 2019, the COVID-19 crisis period apprehended by the year of 2020 and the post-COVID-19 crisis period seized by the year of 2021.

Recommendations for future research would be to consider the structure of public finances in North Macedonia, where through an organic budget law, significant reforms in the budget process will be introduced by allowing more robust fiscal decentralization by ensuring more funds to municipalities as well as greater accountability and transparency.

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