

**XIII. International Balkan and Near Eastern Congress Series on
Economics, Business and Management
Tekirdag-Fall / Turkey**

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**University of Agribusiness and Rural Development/Bulgaria
University "St. Kliment Ohridski" Faculty of Economics/Republic of North Macedonia
IBANESS**

PROCEEDINGS

Editors

Prof.Dr. Dimitar Kirilov DIMITROV

Prof.Dr. Dimitar NIKOLOSKI

Prof.Dr. Rasim YILMAZ

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2019

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		Hasan VURAL	Organic Livestock Products Marketing in Turkey
		İsmail Bülent GÜRBÜZ	Rural Development Planning; Socio-spatial Perspectives on Migration in Bursa Province
		İsmail Bülent GÜRBÜZ	Rural Development Planning; Willingness to Participate

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Analysis of the budget and the public debt of Republic of Macedonia in the period 2008-2018

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Abstract: The Budget of the Republic of Macedonia is an annual plan for financing the functions and liabilities of the Republic of Macedonia, of the units of local self-government and of the funds, consisting of an annual estimate of the revenue and expenditure by purpose. An annual estimate means a 12-month fiscal year that begins on January 1 and ends on December 31 of each calendar year and applies only to the fiscal year for which it is adopted.

A budget deficit or, to put it mildly, a shortfall in the treasury is the negative difference between total revenues (lower item) and total expenditures (larger item) of the budget on a yearly basis. The budget deficit is money that the government does not have, and plans to spend and therefore has to borrow. It can be expressed in absolute terms, but is usually expressed as a percentage of a country's GDP. Putting the deficit under control is important for keeping debt at a sustainable level

Public debt or general government debt is the sum of central government debt, municipal debt, public enterprises and funds' debt, the debt of the Macedonian Bank for Development Promotion and similar institutions.

The subject of this paper is the Budget of the Republic of Macedonia for the period 2008-2018, separately elaborating the budget balance (expressed in absolute numbers and as a% of GDP), the structure of the budget revenues and tax revenues, the structure of total and current expenditure, fiscal transfers and the public debt (expressed in absolute terms and in% of GDP). The period 2008-2018 has been selected to analyze the years following the economic crisis from 2008 until the last fiscal year 2018.

Key words: budget, budget revenues, budget expenditures, fiscal transfers, public debt

Introduction

The main objective in preparing and executing the budget is macroeconomic stability and sustainable and stable national economic development. The procedure for preparation, adoption and execution of the Budget of the Republic of Macedonia and the budgets of the municipalities, as well as the notification for their execution, are based on the following principles:

1. Comprehensiveness, which means the presentation of all income and other inflows, expenses and other outflows;
2. Budget balance, which means total revenues and inflows to cover appropriations approved by the budget;
3. Specificity, which means that the approved funds are earmarked for specific purposes by divisions, programs, sub-programs and items;
4. Economy, which means that approved funds will be used in a timely manner, in an appropriate amount, taking into account quality and cost;
5. Efficiency, which means the best ratio between the means used and the results achieved;

6. Effectiveness, which means achieving the set goals and achieving the desired results;
7. Transparency, which means public availability at all stages of the budget preparation and execution; and
8. Secure Financial Management, which involves executing the budget in accordance with effective and efficient internal control as a process applicable to all levels of financial asset management.

The budget of the Republic of Macedonia and the budgets of the municipalities refer to a period of one fiscal year which is 12 months and commences on 1 January and ends on 31 December.

Planned revenues and other inflows are the basis for determining the funds approved by the budget. The planned revenues and other inflows are revenues and other inflows of the base budget, budget revenues of self-financing activities, budget revenues from donations, loans and revenues budget revenues and other funds and municipalities budget inflows. The approved budgetary funds include funds approved per budget users and identified uses that relate to financing the current, capital and other expenditures of budget users and their individual beneficiaries for the performance of activities presented through programs and sub-programs. Budget users may not undertake liabilities that are due in the current year or to make expenditures over funds approved by the Budget of the Republic of Macedonia and the budget of the municipality. Unused appropriations with the budget shall expire on December 31 of the current fiscal year unless otherwise provided by law.

The Ministry of Finance is responsible for managing the funds received from the European Union Budget, in accordance with the provisions and rules of the European Union for financing and contracting. The funds from the European Union funds as well as the national co-financing funds are shown in the budget in appropriate programs or sub-programs. Programs showing EU funds and national co-financing funds are an integral part of the program for development of budget users.

Approved funds in programs and sub-programs of the developmental portion of the base budget that will not be used during the fiscal year shall be transferred in the amount of 50% as approved funds for the first half of the following fiscal year.

Within the central budget ie the municipal budget, contingency funds are planned as a permanent and current budget reserve. The approved funds in a permanent budget reserve are used to eliminate the effects of natural disasters, epidemics and environmental disasters, and they cannot be reduced by redistribution throughout the year, and may be increased by redistribution if insufficient. The approved funds in the current reserve are used for contingencies for which the budget does not plan or funds are insufficient. Permanent and current budgetary reserves may not exceed 3% of the total current expenditure of the basic budget.

In Macedonia, the Minister of Finance is responsible for drafting the Budget of the Republic of Macedonia and submitting it to the Government of the Republic of Macedonia. The fiscal year report on the current fiscal year is prepared by the Minister of Finance, who proposes the fiscal policy directives and objectives as well as the main categories of estimated revenue and expenditure for the next budget year and submits it to the Government in April of the current year for the following year.

The Draft Budget of the Republic of Macedonia contains:

1. Balance of revenue and expenditure part of budgets with:
 - revenue items
 - cost items
2. Functional cost classification;
3. Costs per division;
4. Special section of the Budget by beneficiaries with:
 - expenses incurred in the previous fiscal year;
 - approved and audited expenses for the current fiscal year;

- estimates for the following fiscal year expressed in terms of economic and program classifications at sub-level and assessment of liabilities for the next two years at category level.
- estimation of the maximum amount to which loans can be borrowed and guarantees can be issued during the current fiscal year;
 - the limit to which local self-government units can borrow during the current fiscal year, and
 - suggestions on possible ways to overcome the budget deficit.

The amounts of revenues stated in the annual budget document are not fixed and limited. Changes in the Budget (the revenue amounts) should be within the total amount of revenue determined. The additionally adopted expenditures in the Budget are accompanied by measures that either increase the proposed revenue or reduce the other expenditure in proportion. The amounts of expenditure set out in the annual budget document shall be considered as maximum amounts and no commitments may be made over these amounts. Any expenditure requiring a new source of revenue together with the proposed source, and when and where the planned expenditure approved for failure to achieve the planned revenue of more than 5% should be reduced, shall be covered by a separate budget document (rebalance) and adopted by the competent authority. To cover unforeseen expenditure requirements that occur during the budget year, up to 3% of the total current and capital expenditure of budgetary reserves (permanent and current) is allocated. The Government decides on the use of the funds upon the proposal of the Minister of Finance.

Budget Execution

The execution of budgets includes the collection and recording of revenues and other inflows, as well as the execution of expenditures and other outflows in accordance with the approved funds. The Assembly of the Republic of Macedonia shall enact a separate law for the implementation of the Budget of the Republic of Macedonia. The head of the budget user or the spending unit is responsible for executing the budget of the budget user, ie the spending unit. The manager authorizes people employed by the budget user, ie the unit user, to perform the duties of collection of revenues and other inflows, execution of expenditures and other outflows that are within the competence of the budget user or unit user, as well as providing a system of financial management and control.

Collection of incomes and other inflows is done in accordance with the law. Budget users authorized by law to collect revenues and other inflows to the basic budget are responsible for their full and timely collection. Budget users and spending units are responsible for the full and timely collection of revenues they derive from performing activities under their competence / activity, irrespectively of the revenue plan. The collected and unused revenues are transferred to the following year at the end of the fiscal year.

Budget users and spending units are responsible for executing expenditures and other outflows in accordance with the funds approved and are obliged to use the approved funds appropriately. Any expenditure and outflow from the budget must be based on reliable accounting documentation proving the payment obligation.

Budget rebalance

The Ministry of Finance monitors the realization of the plan of revenues and other inflows, expenditures and other outflows of the Budget of the Republic of Macedonia. In case the expected revenues and other inflows of the basic budgets are realized at a higher level than the plan may make additional repayments of principal and interest on the debt. If during the budget execution it is considered that significant redistribution of the appropriations is necessary or that the realization of the revenues and other inflows significantly deviates from the plan, it is proposed to amend the budget (budget rebalance). The Parliament of the Republic of Macedonia shall adopt the amendments to the budget by 15 November at the current year. In the course of the procedure for adopting the amendments to the Budget, the Ministry of finance temporarily suspends the enforcement of certain appropriations from the budget that are subject to the proposed amendments.

In conditions of the adoption of the Budget or the Amendments to the Budget of the Republic of Macedonia, which reduce the appropriations, the budget users may change the dynamics of the liabilities from the already concluded contracts, upon previously provided consent by the contracting party and the Government of the Republic of Macedonia.

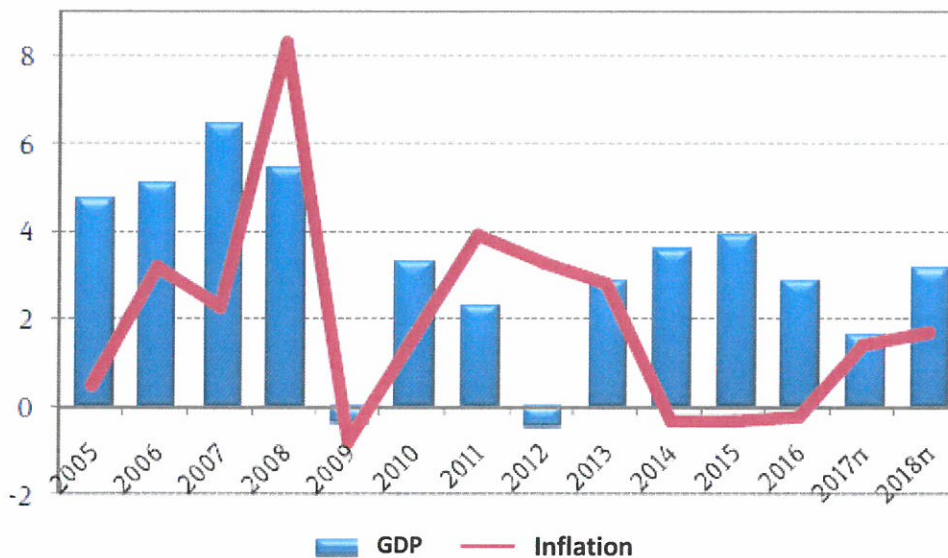
If during the fiscal year there are unforeseen significant budgetary liabilities or significant deviations in the realization of the planned revenues / inflows, the Government of the Republic of Macedonia, upon proposal of the Ministry of Finance, may suspend the execution of certain appropriations for a period not exceeding 45 days, The Government of the Republic of Macedonia shall inform the Assembly of the Republic of Macedonia thereof. If the conditions for regular budget execution are not created within 30 days from the day of stopping the execution, the Government of the Republic of Macedonia, upon a proposal of the Ministry of Finance, shall submit to the Parliament of the Republic of Macedonia a proposal for Changes and Amendments to the Budget.

Analysis of the budget and the public debt of Republic of Macedonia in the period 2008-2018

The subject of the analysis in this paper is the Budget of the Republic of Macedonia for the period 2008-2018, separately elaborating the budget balance (expressed in absolute numbers and as a percentage of GDP), the structure of budget revenues and tax revenues, the structure of total and current expenditure, fiscal transfers and public debt (expressed in absolute terms and in% of GDP). The period 2008-2018 has been selected to analyze the years following the economic crisis from 2008 until the last fiscal year 2018.

The fiscal and monetary policies of a country are interrelated and depend on the conditions of the economy and the GDP growth rate. The Real GDP growth rate and inflation rate in the period 2005 - 2018 are presented in Graph 1, which shows the period of GDP expansion in the years before the economic crisis in 2008, whose effect was dramatically felt in 2009 with a negative GDP rate, with a slight recovery in 2010 and 2011 and a negative trend in 2012 again. Since 2013 there has been a positive trend of GDP growth but still it cannot reach the level of 2007 which is a year of economic expansion.

Graph1. Real GDP growth rate and inflation rate



Source: State Statistical Office

Central Government Budget

The Budget of the Republic of Macedonia is an act that plans annual revenues and other inflows and appropriations and includes the central budget and the budgets of the funds. A central budget is an annual plan of revenues, other inflows and appropriations, which relates to central government budget users and includes the base budget, donations budget, loan budget and the budget of self-financing activities.

Budget Deficit Deficit deficit is a negative difference between projected or collected revenues and appropriations, ie expenditures and is financed with funds from other inflows, and Budget surplus is a positive difference between planned or collected revenues and expenditures and is used to finance the negative difference between planned, realized other inflows and other outflows.

The budget items by revenue sources as well as the types of expenditures are presented in the following table 2, which shows a visible budget imbalance and the sources for covering the budget deficit are presented.

Table 1. Central Government Budget 2008-2018

in million of denars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL REVENUES	136,41 1	128,49 8	132,14 9	137,16 6	138,11 5	140,24 8	145,92 9	161,20 7	169,35 6	179,67 3	188,48 3
Taxes and Contributions	115,10 3	109,86 0	112,44 0	118,66 9	117,38 2	120,99 1	129,31 0	140,82 6	150,36 2	157,53 7	170,99 4
Tax Revenues (SRA)	295	269	815	704	998	1,075	1,280	1,569	1,605	1,430	1,682
Taxes	76,559	70,754	72,938	78,206	75,619	77,478	83,845	91,357	98,457	103,21 7	112,77 4
Personal Income Tax	8,696	8,710	8,872	9,513	9,553	10,254	12,320	12,910	14,205	15,263	17,561
Profit Tax	8,579	4,434	3,690	3,888	3,652	4,421	5,060	12,024	10,768	11,353	14,745
VAT(net)	36,173	35,173	37,694	42,224	38,469	39,835	43,860	41,694	45,949	47,870	49,254
VAT (gross)*	60,185	50,118	53,217	60,504	59,308	58,055	59,382	61,038	65,195	68,532	73,871
Excises	14,276	14,533	14,925	15,513	16,596	15,990	17,392	19,783	22,215	23,093	25,092
Import Duties	6,275	5,229	4,712	3,779	4,067	4,255	4,223	4,330	4,761	5,175	5,604
Other Taxes	2,560	2,675	3,045	3,289	3,282	2,723	990	616	559	463	518
Contributions	38,249	38,837	38,687	39,759	40,765	42,438	44,185	47,900	50,300	52,890	56,538
Pension Insurance Contributions	25,586	26,281	26,137	26,890	27,524	28,632	29,726	32,215	33,814	35,604	37,981
Unemployment Contributions	1,790	1,848	1,651	1,699	1,746	1,802	1,884	2,042	2,152	2,261	2,426
Health Insurance Contributions	10,873	10,708	10,899	11,170	11,495	12,004	12,575	13,643	14,334	15,025	16,131
Non Tax Revenues	18,400	16,402	14,066	12,844	12,626	12,109	10,634	12,859	12,973	13,396	12,260
Non Tax Revenues (SRA)	7,160	6,859	6,436	5,996	5,815	5,814	5,990	6,646	7,447	8,323	6,752
Profit of Public Financial Institutions	5,546	3,807	1,976	362	178	271	261	716	850	146	169
Administrative Taxes and Charges	1,858	1,897	1,775	1,815	1,730	1,844	1,988	1,882	1,739	1,652	1,795
Health co-payment	390	312	315	327	335	335	356	384	415	437	443
Other Administrative Taxes	561	514	543	668	721	831	1,190	1,733	1,886	2,277	2,517
Other Non Tax Revenues	942	1,265	883	1,937	1,705	3,014	849	1,498	636	561	584
Road Fund Fees	1,943	1,747	1,827	1,739	2,142	0	0	0	0	0	0
Capital Revenues	1,390	1,167	3,660	3,787	4,433	3,139	1,874	2,265	1,977	1,316	2,199
Foreign Donations	1,327	833	1,458	1,087	3,045	3,451	3,383	4,733	3,648	7,171	2,971
Revenues from repayment of loans	191	237	524	779	629	558	728	524	396	253	59
TOTAL EXPENDITURES	140,22 2	139,39 3	142,69 1	148,64 9	155,84 0	159,50 5	168,06 3	180,63 2	185,40 7	196,56 1	200,08 3

Current Expenditures	120,160	125,965	127,357	130,939	137,083	142,894	150,440	161,965	168,433	176,698	187,936
Wages and Allowances	20,827	22,699	22,638	23,147	22,714	22,566	23,096	24,685	25,958	26,204	26,354
Goods and Services	18,745	16,220	14,681	13,958	14,652	14,877	15,467	18,088	16,702	15,344	14,556
Transfers	77,942	84,601	86,864	90,363	95,501	100,845	106,787	112,734	118,902	126,762	139,327
Transfers (SRA)	1,283	1,505	1,185	797	1,196	1,011	962	1,592	1,517	1,879	1,779
Social Transfers	58,104	61,742	63,786	67,188	69,676	74,250	78,367	82,903	89,005	94,690	100,679
Pensions Fund	33,366	36,455	37,614	39,234	40,893	44,954	48,073	50,285	54,622	58,084	61,243
Unemployment Benefits	1,626	2,271	2,194	2,269	2,239	1,935	1,702	1,482	1,216	1,305	1,922
Social Benefits	3,990	4,305	4,674	5,194	5,604	5,941	6,462	7,489	7,571	8,261	8,567
Health Care	19,122	18,711	19,304	20,491	20,940	21,420	22,130	23,647	25,596	27,040	28,947
Other Transfers	18,488	21,296	21,843	22,378	24,629	25,584	27,458	28,239	28,380	30,193	36,869
Interest	2,646	2,445	3,174	3,471	4,216	4,606	5,090	6,458	6,871	8,388	7,699
Domestic	943	1,011	1,019	1,107	1,306	1,994	2,525	2,691	2,593	2,845	2,820
Foreign	1,703	1,434	2,155	2,364	2,910	2,612	2,565	3,767	4,278	5,543	4,879
Capital Expenditures	20,062	13,428	15,334	17,710	18,757	16,611	17,623	18,667	16,974	19,863	12,147
Budget Balance	-3,811	-10,895	-10,543	-11,483	-17,725	-19,257	-22,134	-19,425	-16,051	-16,888	-11,600
Financing	3,811	10,895	10,543	11,483	17,725	19,257	22,134	19,425	16,051	16,888	11,600
Inflow	10,787	18,939	18,024	19,584	23,126	34,574	32,225	47,846	36,836	34,470	39,722
Other	1,640	0	0	0	0	297	449	45	125	371	304
Foreign Loans	2,666	13,040	7,800	23,718	7,806	19,066	36,196	19,866	30,892	3,464	32,499
Deposits	3,346	-274	3,390	-7,316	-12,272	-317	-5,392	10,265	-5,318	10,549	-9,637
Domestic borrowing	3,038	6,098	6,796	2,906	27,472	15,238	960	17,654	11,116	20,086	16,539
Banking institutions				252	19,061	8,267	-1,769	7,705	2,257	3,013	6,555
Non-Banking institutions				2,654	8,411	6,971	2,729	9,949	8,859	17,073	9,984
Sell of Shares	97	75	40	276	120	290	12	16	21	0	17
Outflow	6,976	8,044	7,482	8,101	5,401	15,317	10,091	28,421	20,785	17,582	28,122
Repayment of Principal	6,976	8,044	7,482	8,101	5,401	15,317	10,091	28,421	20,785	17,582	28,122
Foreign	1,878	2,356	2,590	3,098	3,481	13,458	8,375	22,131	11,609	8,281	15,910
Domestic	5,098	5,688	4,892	5,003	1,920	1,859	1,716	6,290	9,176	9,301	12,212

* source: Public Revenue Office

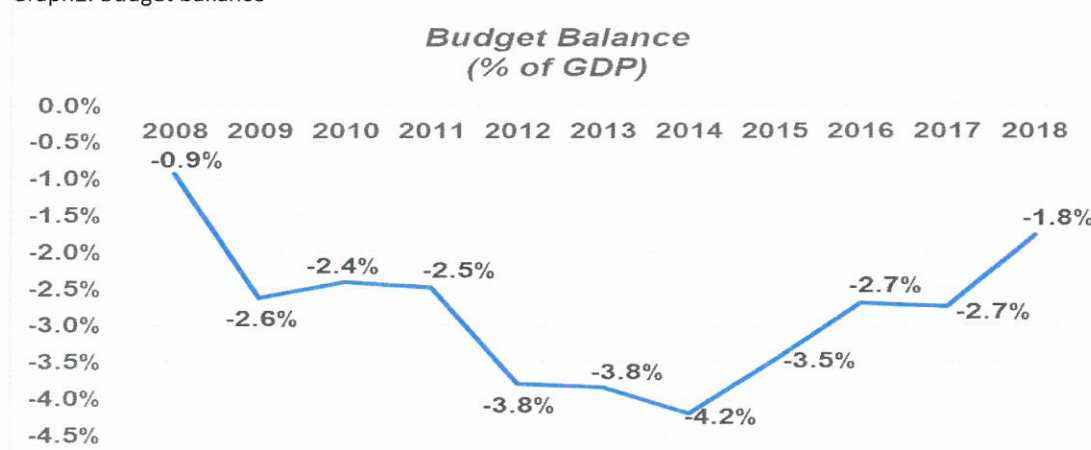
Budget Balance

The following table and graph shows the budget imbalance or the budget deficit that is present in all years. It is the smallest in 2008, to increase by 2.86 times in 2009, and has been steadily growing in the years to follow, with 54.36% growth in 2012 compared to 2001 and slightly continuous decline from 2016 to 2018. This trend is due to the faster growth of budget expenditures than budget revenues. A similar trend is observed in the budget balance presented as a % of GDP, which indicates that the GDP is related to the budget deficit, ie the decrease in GDP causes reduced budget revenues.

Table2. Budget Balance 2008-2018

in million of denars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Revenues	136,411	128,498	132,149	137,166	138,115	140,248	145,929	161,207	169,356	179,673	188,483
Total Expenditures	140,222	139,393	142,691	148,649	155,840	159,505	168,063	180,632	185,407	196,561	200,083
Budget Balance	-3,811	-10,895	-10,543	-11,483	-17,725	-19,257	-22,134	-19,425	-16,051	-16,888	-11,600
GDP	414 890	414 622	437 296	464 186	466 703	501 891	527 631	558 954	594 795	616 600	660308
Budget Balance % of GDP	-0.9%	-2.6%	-2.4%	-2.5%	-3.8%	-3.8%	-4.2%	-3.5%	-2.7%	-2.7%	-1.8%

Graph2. Budget bakançe



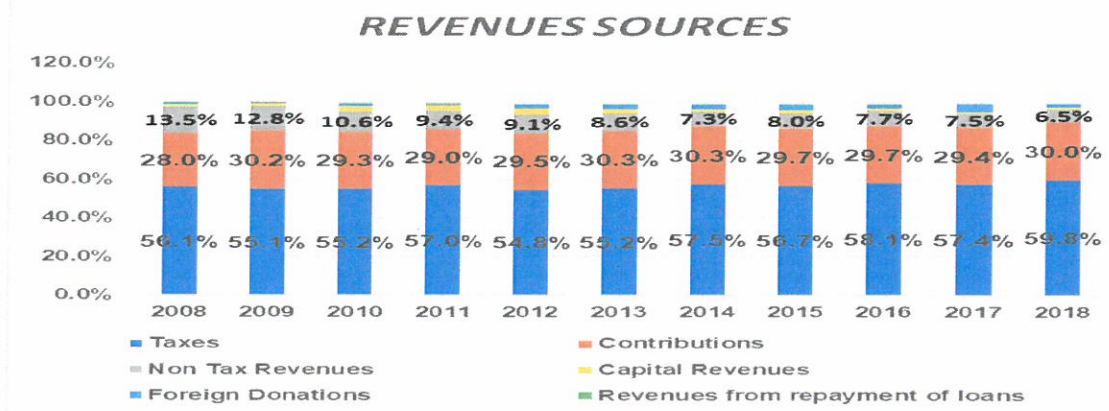
Total revenues structure

Tax revenues (VAT, income tax, personal income tax, property tax, etc.) have the largest share in the structure of budget revenues (from 55 to 59.8%). Social contribution revenues (pension, health and employment contributions) account for 28-30% of the total budget. Characteristic for the analysis are the non-tax revenues, which are continuously declining ie, from 13.5% in 2008, they decreased to 6.5% in 2018. Foreign donation revenues are different throughout the year, with a significantly higher percentage of 4% in 2017.

Table3. Total revenue structura

in million of denars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL REVENUES	136,411	128,498	132,149	137,166	138,115	140,248	145,929	161,207	169,356	179,673	188,483
Taxes	76,559	70,754	72,938	78,206	75,619	77,478	83,845	91,357	98,457	103,217	112,774
Taxes	56.1%	55.1%	55.2%	57.0%	54.8%	55.2%	57.5%	56.7%	58.1%	57.4%	59.8%
Contributions	38,249	38,837	38,687	39,759	40,765	42,438	44,185	47,900	50,300	52,890	56,538
Contributions	28.0%	30.2%	29.3%	29.0%	29.5%	30.3%	30.3%	29.7%	29.7%	29.4%	30.0%
Non Tax Revenues	18,400	16,402	14,066	12,844	12,626	12,109	10,634	12,859	12,973	13,396	12,260
Non Tax Revenues	13.5%	12.8%	10.6%	9.4%	9.1%	8.6%	7.3%	8.0%	7.7%	7.5%	6.5%
Capital Revenues	1,390	1,167	3,660	3,787	4,433	3,139	1,874	2,265	1,977	1,316	2,199
Capital Revenues	1.0%	0.9%	2.8%	2.8%	3.2%	2.2%	1.3%	1.4%	1.2%	0.7%	1.2%
Foreign Donations	1,327	833	1,458	1,087	3,045	3,451	3,383	4,733	3,648	7,171	2,971
Foreign Donations	1.0%	0.6%	1.1%	0.8%	2.2%	2.5%	2.3%	2.9%	2.2%	4.0%	1.6%
Revenues from repayment of loans	191	237	524	779	629	558	728	524	396	253	59
Revenues from repayment of loans	0.1%	0.2%	0.4%	0.6%	0.5%	0.4%	0.5%	0.3%	0.2%	0.1%	0.0%

Graph3. Revenues sources



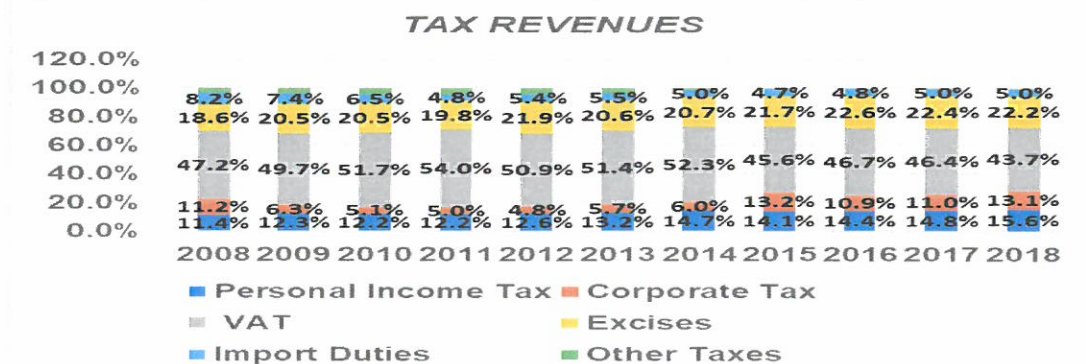
Tax revenues

In the structure of the tax revenues, VAT revenues account for about 50%, excise taxes account for about 20%, and personal income tax account for about 13%. Revenues from import duties decreased year by year as a result of the customs liberalization of the Republic of Macedonia.

Table4. Tax revenues

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Taxes and Contributions	76,854	76,266	76,416	75,344	74,338	72,665	70,918	67,203	64,803	62,213	58,565
Tax Revenues (SRA)	295	269	815	704	998	1,075	1,280	1,569	1,605	1,430	1,682
Taxes	76,559	70,754	72,938	78,206	75,619	77,478	83,845	91,357	98,457	103,217	112,774
Personal Income Tax	8,696	8,710	8,872	9,513	9,553	10,254	12,320	12,910	14,205	15,263	17,561
Personal Income Tax %	11.4%	12.3%	12.2%	12.2%	12.6%	13.2%	14.7%	14.1%	14.4%	14.8%	15.6%
Profit Tax	8,579	4,434	3,690	3,888	3,652	4,421	5,060	12,024	10,768	11,353	14,745
Corporate Tax %	11.2%	6.3%	5.1%	5.0%	4.8%	5.7%	6.0%	13.2%	10.9%	11.0%	13.1%
VAT	36,173	35,173	37,694	42,224	38,469	39,835	43,860	41,694	45,949	47,870	49,254
VAT %	47.2%	49.7%	51.7%	54.0%	50.9%	51.4%	52.3%	45.6%	46.7%	46.4%	43.7%
Excises	14,276	14,533	14,925	15,513	16,596	15,990	17,392	19,783	22,215	23,093	25,092
Excises %	18.6%	20.5%	20.5%	19.8%	21.9%	20.6%	20.7%	21.7%	22.6%	22.4%	22.2%
Import Duties	6,275	5,229	4,712	3,779	4,067	4,255	4,223	4,330	4,761	5,175	5,604
Import Duties %	8.2%	7.4%	6.5%	4.8%	5.4%	5.5%	5.0%	4.7%	4.8%	5.0%	5.0%
Other Taxes	2,560	2,675	3,045	3,289	3,282	2,723	990	616	559	463	518
Other Taxes %	3.3%	3.8%	4.2%	4.2%	4.3%	3.5%	1.2%	0.7%	0.6%	0.4%	0.5%

Graph4. Tax revenues



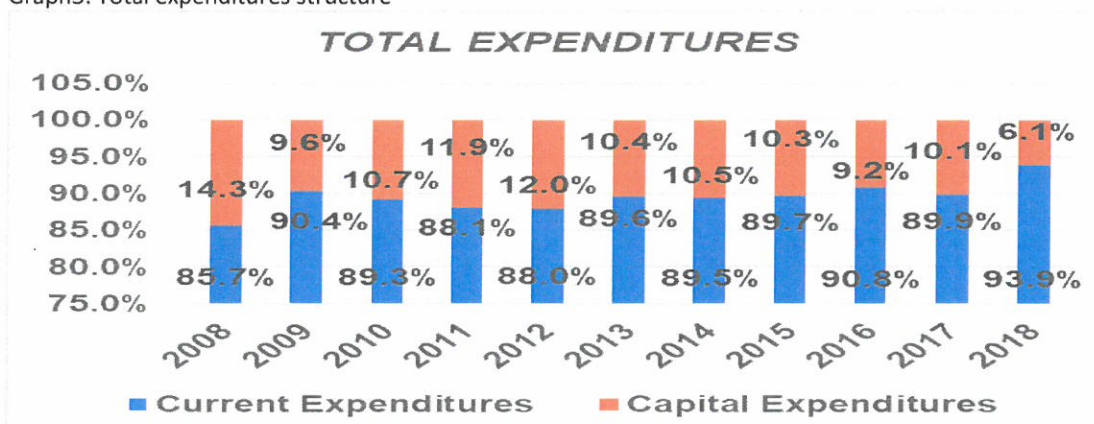
Total expenditures structure

The structure of budget expenditures comprises current and capital expenditures. The largest item in the total budget expenditures relates to current expenditures and they have been continuously increasing from 85.7% in 2008 to reach 93.9% in 2018. The reverse is the case with capital expenditures, where it was observed that from 14.3% in 2008, they continued to decline to only 6.1% in 2018. Such a negative downward trend in capital investment has a negative impact on both the final consumption and the GDP.

Table5. Total expenditures structure

in million of denars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL EXPENDITURES	140,22 2	139,39 3	142,69 1	148,64 9	155,84 0	159,50 5	168,06 3	180,63 2	185,40 7	196,56 1	200,08 3
Current Expenditures	120,16 0	125,96 5	127,35 7	130,93 9	137,08 3	142,89 4	150,44 0	161,96 5	168,43 3	176,69 8	187,93 6
Current Expenditures	85.7%	90.4%	89.3%	88.1%	88.0%	89.6%	89.5%	89.7%	90.8%	89.9%	93.9%
Capital Expenditures	20,062	13,428	15,334	17,710	18,757	16,611	17,623	18,667	16,974	19,863	12,147
Capital Expenditures	14.3%	9.6%	10.7%	11.9%	12.0%	10.4%	10.5%	10.3%	9.2%	10.1%	6.1%

Graph5. Total expenditures structure



Current expenditures (% of category in total expenditure)

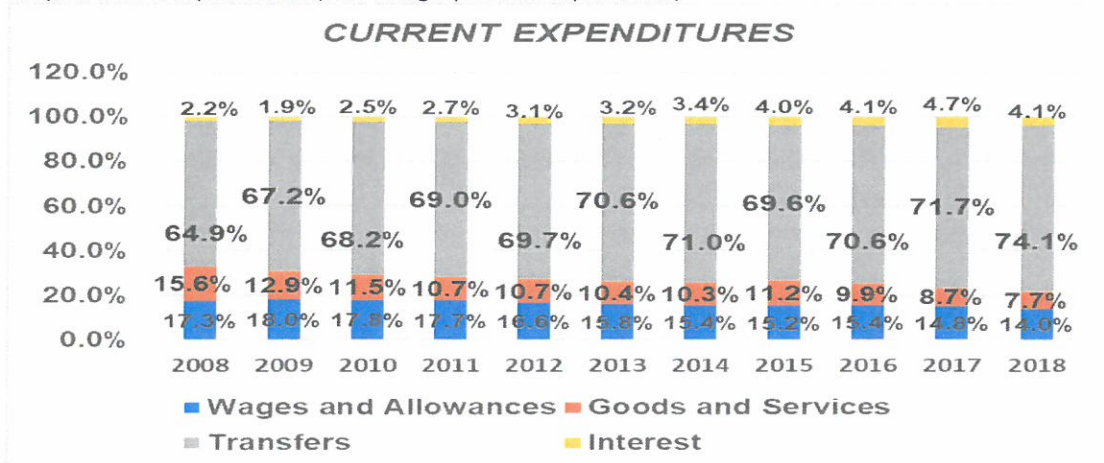
In the structure of current budget expenditures, the highest item is the salaries of the employees in the state organs and institutions and they are continuously decreasing from 17.3% in 2008 to 14% in 2018. Costs of goods and services also showed a continuous decline from 15.6% in 2008 to 7.7% in 2018. This trend is a result of the implementation of the Law on Public Procurement, which enables the purposeful and economical spending of budget funds and providing the highest value for money. Transfers account for most of the current budget expenditures and continued to grow from 64.9% in 2008 to 74.1% in 2018.

Table6. Current expenditures (% of category in total expenditure)

in million of denars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Current Expenditures	120,16 0	125,96 5	127,35 7	130,93 9	137,08 3	142,89 4	150,44 0	161,96 5	168,43 3	176,69 8	187,93 6
Wages and Allowances	20,827	22,699	22,638	23,147	22,714	22,566	23,096	24,685	25,958	26,204	26,354
Wages and Allowances	17.3%	18.0%	17.8%	17.7%	16.6%	15.8%	15.4%	15.2%	15.4%	14.8%	14.0%
Goods and Services	18,745	16,220	14,681	13,958	14,652	14,877	15,467	18,088	16,702	15,344	14,556
Goods and Services	15.6%	12.9%	11.5%	10.7%	10.7%	10.4%	10.3%	11.2%	9.9%	8.7%	7.7%
Transfers	77,942	84,601	86,864	90,363	95,501	100,84 5	106,78 7	112,73 4	118,90 2	126,76 2	139,32 7
Transfers (SRA)	1,283	1,505	1,185	797	1,196	1,011	962	1,592	1,517	1,879	1,779
Social Transfers	58,104	61,742	63,786	67,188	69,676	74,250	78,367	82,903	89,005	94,690	100,67 9

<i>Pensions Fund</i>	33,366	36,455	37,614	39,234	40,893	44,954	48,073	50,285	54,622	58,084	61,243
<i>Unemployment</i>	1,626	2,271	2,194	2,269	2,239	1,935	1,702	1,482	1,216	1,305	1,922
<i>Social Benefits</i>	3,990	4,305	4,674	5,194	5,604	5,941	6,462	7,489	7,571	8,261	8,567
<i>Health Care</i>	19,122	18,711	19,304	20,491	20,940	21,420	22,130	23,647	25,596	27,040	28,947
<i>Other Transfers</i>	18,488	21,296	21,843	22,378	24,629	25,584	27,458	28,239	28,380	30,193	36,869
Transfers	64.9%	67.2%	68.2%	69.0%	69.7%	70.6%	71.0%	69.6%	70.6%	71.7%	74.1%
<i>Interest</i>	2,646	2,445	3,174	3,471	4,216	4,606	5,090	6,458	6,871	8,388	7,699
<i>Domestic</i>	943	1,011	1,019	1,107	1,306	1,994	2,525	2,691	2,593	2,845	2,820
<i>Foreign</i>	1,703	1,434	2,155	2,364	2,910	2,612	2,565	3,767	4,278	5,543	4,879
Interest	2.2%	1.9%	2.5%	2.7%	3.1%	3.2%	3.4%	4.0%	4.1%	4.7%	4.1%

Graph6. Current expenditures (% of category in total expenditure)



Transfers (% of category in total transfers)

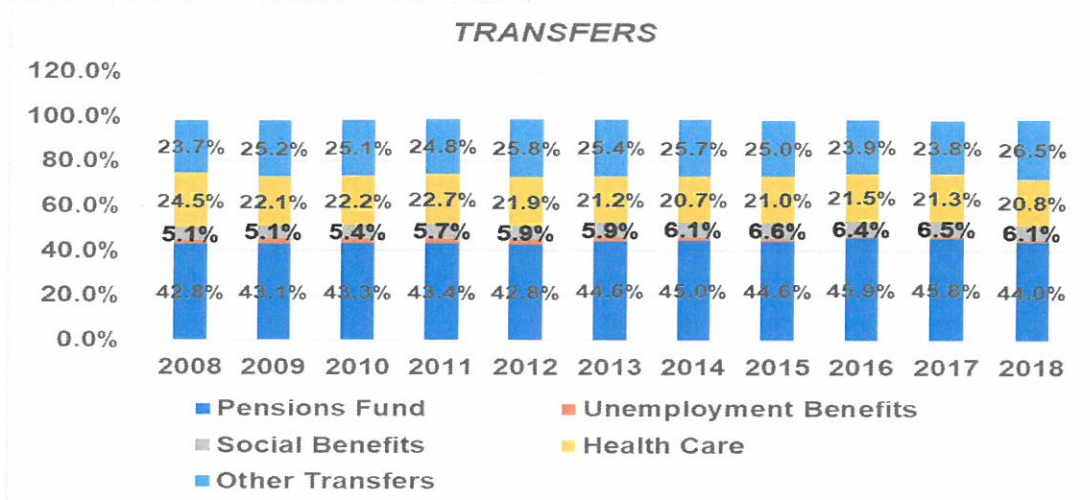
Pension fund transfers accounted for the most in total transfers, increasing continuously from 42.8% in 2008 to 44% in 2018, and in absolute numbers the change for 2018/2008 was 83.5%. The increase in Pension Fund transfers is due to the increase in the life expectancy of the population and the increase in pensions. Health fund payments continued to decline from 24.5% in 2008 to 20.8% in 2018. Other transfers also increased during the observed period.

Table7. Transfers (% of category in total transfers)

in million of denars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Transfers	77,9	84,6	86,8	90,3	95,5	100,8	106,7	112,7	118,9	126,7	139,3
<i>Transfers (SRA)</i>	42	01	64	63	01	45	87	34	02	62	27
<i>Social Transfers</i>	1,28	1,50	1,18	797	1,19	1,011	962	1,592	1,517	1,879	1,779
	3	5	5		6						
<i>Pensions Fund</i>	58,1	61,7	63,7	67,1	69,6	74,25	78,36	82,90	89,00	94,69	100,6
	04	42	86	88	76	0	7	3	5	0	79
<i>Unemployment Benefits</i>	33,3	36,4	37,6	39,2	40,8	44,95	48,07	50,28	54,62	58,08	61,24
	66	55	14	34	93	4	3	5	2	4	3
Pensions Fund %	42.8	43.1	43.3	43.4	42.8	44.6%	45.0%	44.6%	45.9%	45.8%	44.0%
	%	%	%	%	%						
<i>Unemployment Benefits</i>	1,62	2,27	2,19	2,26	2,23	1,935	1,702	1,482	1,216	1,305	1,922
	6	1	4	9	9						
Unemployment Benefits %	2.1%	2.7%	2.5%	2.5%	2.3%	1.9%	1.6%	1.3%	1.0%	1.0%	1.4%
<i>Social Benefits</i>	3,99	4,30	4,67	5,19	5,60	5,941	6,462	7,489	7,571	8,261	8,567
	0	5	4	4	4						
Social Benefits %	5.1%	5.1%	5.4%	5.7%	5.9%	5.9%	6.1%	6.6%	6.4%	6.5%	6.1%
<i>Health Care</i>	19,1	18,7	19,3	20,4	20,9	21,42	22,13	23,64	25,59	27,04	28,94
	22	11	04	91	40	0	0	7	6	0	7

Health Care %	24.5 %	22.1 %	22.2 %	22.7 %	21.9 %	21.2%	20.7%	21.0%	21.5%	21.3%	20.8%
Other Transfers	18,4 88	21,2 96	21,8 43	22,3 78	24,6 29	25,58 4	27,45 8	28,23 9	28,38 0	30,19 3	36,86 9
Other Transfers %	23.7 %	25.2 %	25.1 %	24.8 %	25.8 %	25.4%	25.7%	25.0%	23.9%	23.8%	26.5%

Graph7. Transfers (% of category in total transfers)



Public debt

The public debt in the Republic of Macedonia in the period from 2008 to 2018 registered continuous growth, ie from 23% of GDP in 2008 to 47.4% of GDP in 2018. In the analyzed period 2018/2008 it increased by 3.26 times. Analyzing the sources of public debt, it is evident that 2/3 of the public debt is external and only 1/3 is domestic public debt.

In order to service the budget deficit, the Republic of Macedonia has issued Eurobonds as follows:

2009 - EUR 175 million with interest rate of 9.87%

2014 - EUR 500 million with interest rate of 3.97%

2015 - EUR 280 million with interest rate of 4.87%

2016 - EUR 450 million with interest rate of 5.62%

2018 - EUR 500 million with interest rate of 2.75%

Table8: Public debt

in million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public debt	1,558.3	1,772.2	1,936.3	2,414.9	2,908.8	3,281.4	3,921.3	4,227.2	4,711.4	4,786.9	5,084.8
External public debt	1,092.4	1,280.3	1,388.2	1,881.9	1,941.2	2,078.7	2,725.1	2,847.5	3,286.0	3,187.5	3,479.4
Internal public debt	465.9	492.0	548.0	532.9	967.6	1,202.7	1,196.2	1,379.7	1,425.4	1,599.4	1,605.4
Public debt as a % of GDP	23.0	26.2	27.2	32.0	38.3	40.3	45.8	46.6	48.8	47.8	48.5

Graph8: Public debt

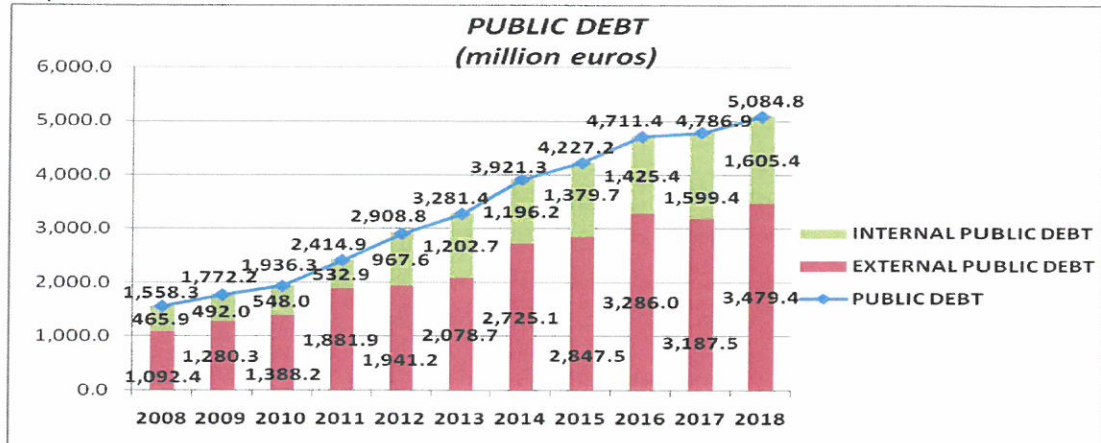
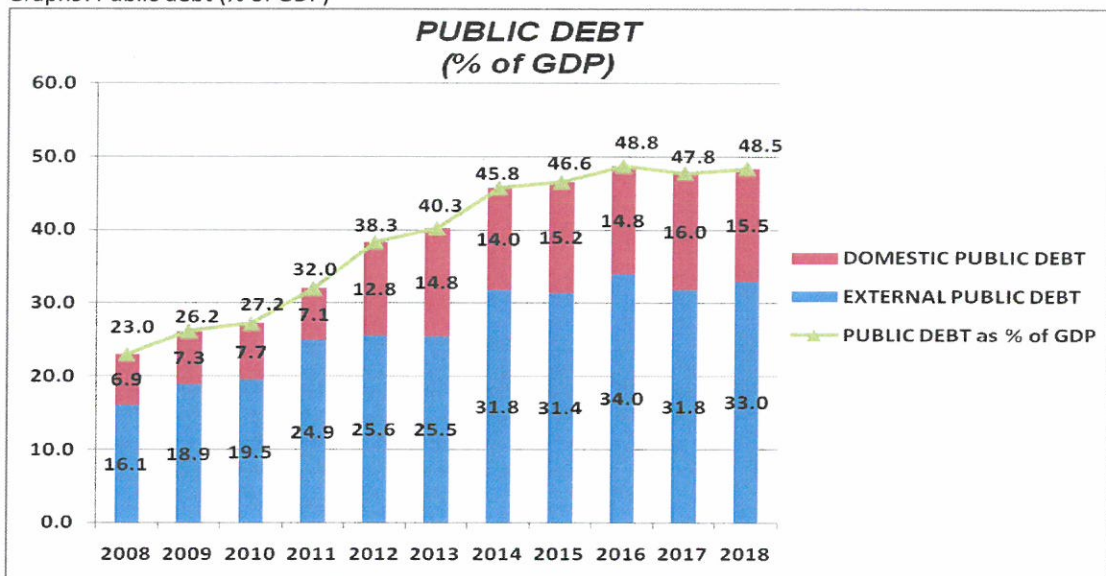


Table9. Public debt (% of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External public debt	16.1	18.9	19.5	24.9	25.6	25.5	31.8	31.4	34.0	31.8	33.0
Domestic public debt	6.9	7.3	7.7	7.1	12.8	14.8	14.0	15.2	14.8	16.0	15.5
Public debt as % of GDP	23.0	26.2	27.2	32.0	38.3	40.3	45.8	46.6	48.8	47.8	48.5

Graph9. Public debt (% of GDP)



The public debt in the Republic of Macedonia is approaching almost 50% of GDP which is not really a high percentage of public debt. Macedonia definitely has one of the lowest levels of public debt in Europe. Our debt is low only when compared to countries in the region. In the region only Kosovo and Bulgaria have lower debt than Macedonia. The purpose for which the state debt is spent is important. If it is spent on construction of hydropower plants, hospitals, schools or factories, then it is going to be a productive investment.

The Macedonian government has been criticized in recent years for using debt money for unproductive costs, such as the Skopje 2014 project and for increasing public administration and pensions, instead of productive capital expenditures (for example, road construction).

Public debt is one of the main reasons for the criticism coming from international instances.

First, because it is evident that it is growing rapidly due to the indebtedness of certain public enterprises, and secondly, because there is no official data on how much it stands, as the Government does not regularly publish data on the amount of public debt.

Conclusion

The main conclusions of this study would be:

- Macedonia has expansionary fiscal policy (Government spending > Tax Revenues);
- Macedonia has constantly budget deficit;
- The highest revenues are from taxes and contributions;
- From the taxes, VAT and excise (indirect taxes) tax have the biggest percent;
- The expenditure is composed of current expenditure and capital expenditure;
- Current expenditures are bigger than capital expenditures;
- From current expenditures, transfers (social contributions) are highest (1. Pension fund; 2. Other transfers; 3. Health Fund);
- Macedonia has public debt that is in line the EU criteria;
- The public debt is more external debt than domestic debt;
- The public debt is constantly increasing except for 2003, 2007 and 2008;
- Decrease the social contributions' percentage so the tax base would increase (more people would be employed and not work on black market);
- Cash should not be used, every transaction should be done with credit or debit card or through bank (the grey economy will decrease because all transactions will be registered);

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