

РЕПУБЛИКА МАКЕДОНИЈА  
МИНИСТЕРСТВО ЗА ФИНАНСИИ



REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE

# **2018 DRAFT BUDGET OF THE REPUBLIC OF MACEDONIA**

Skopje, 2<sup>nd</sup> November 2017

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# Budget process

- June - Budget circular
- July/August – Preparation of draft budget requests
- September – Negotiations with budget users
- October - Preparation of the Draft Budget in the Ministry of Finance (MoF)
- Beginning of November - Public presentations of the Draft Budget as a **new practice of MoF**
- By 15<sup>th</sup> November – Adoption of the Draft Budget by the Government of the Republic of Macedonia
- By 31<sup>st</sup> December – Discussing and adopting of the Budget by the Parliament of the Republic of Macedonia

# Macroeconomic projections

- MoF revises the **real GDP growth to 1.6% in 2017** - taking into account the official data of SSO and the expectations for the rest of the year
- This rate is in line with the autumn projections of the relevant international institutions: 1.9% according to IMF Article 4 Mission; 1.5% according to the World Bank
- GDP revision for the current year during preparations of next year Budget is a **new practice of MoF**
- Increase of transparency and **usage of realistic foundations for preparing the budget for the next year** (including presentation of the accurate deficit)
- 2017 Budget deficit will not exceed 2.9% of GDP, in accordance with the the Supplementary Budget

# Macroeconomic projections

- **Real GDP growth in 2018 is projected at 3.2%** - further intensification of economic activity
- Growth will reflect the continuously solid personal consumption, the intensification of investments, as well as the increase in exports
- Inflation rate of 1.7% in 2018 – mainly under the influence of global prices
- GDP growth of 5.3% in nominal terms
- Usage of a realistic projection of GDP as a key commitment of MoF
  - Real GDP projection is the **same with the autumn projections of the relevant international institutions**: 3.2% according to the IMF; 3.2% according to the WB

# Main fiscal projections

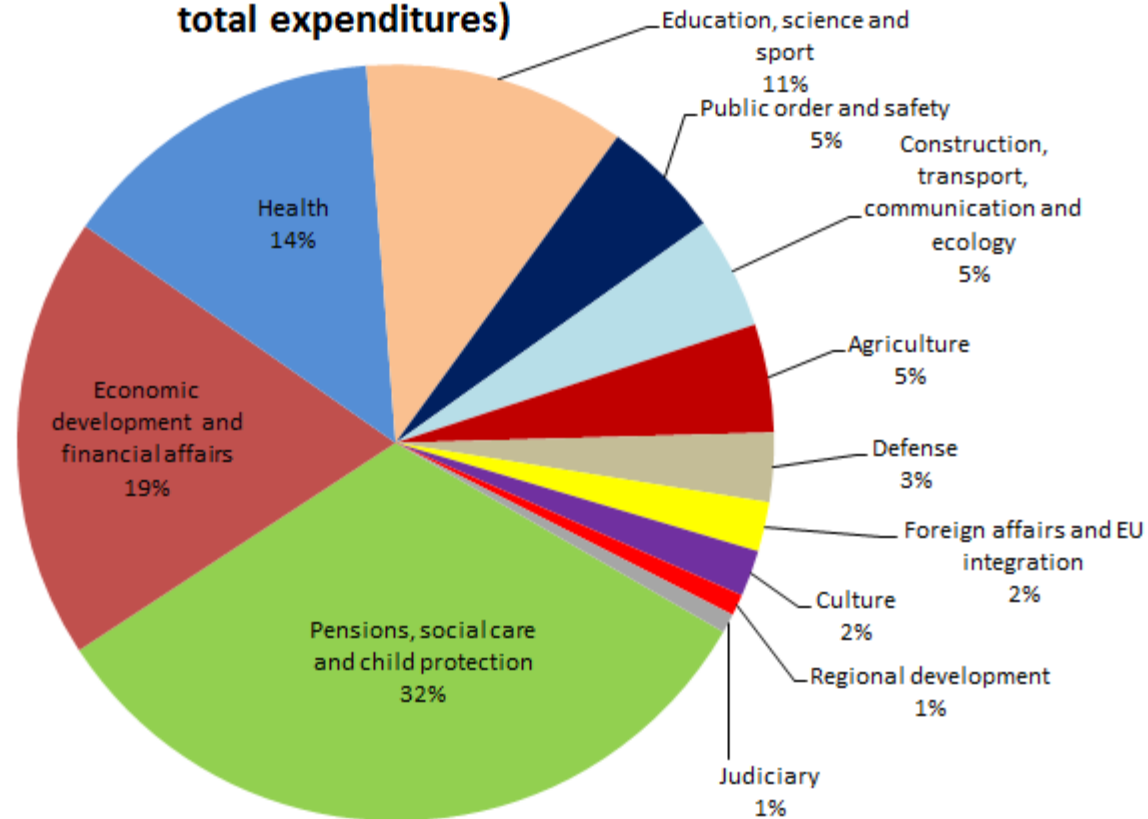
- Total revenues are projected at Denar 193.5 billion, i.e. by 4.7% higher in relation to 2017
- Expenditures are projected at Denar 211.7 billion, i.e. higher by 4.1% compared to 2017
- Budget deficit in the amount of Denar 18.2 billion, i.e. **deficit of 2.7% of GDP** (compared to 2.9% in 2017)
  - **Gradual fiscal consolidation** - strict control and decrease of less productive expenditures, at the same time providing a significant level of capital investments and subsidies aimed at supporting the national economy
- Deficit financing from domestic and foreign sources, depending on the market conditions
  - Regular and timely payment of liabilities with the most favorable borrowing conditions as an absolute priority of MoF

# Revenues

- Projected on the basis of economic expectations for 2018 - **Without big changes in taxation**
- Increase of the excise for diesel by 3 denars, with expected multiple effects:
  - Higher budget revenues for financing new expenditures
  - Harmonization with the European standards and the EU regulations
  - Environment protection – reduction of pollution
- Expected outcome is higher excise revenues by Denar 1.6 billion and higher VAT revenues by Denar 350 million – additionally, higher revenues of PESR (Public Enterprise for State Roads) for road investments
  - **Retail price of diesel will remain the lowest in the region**
- Retaining the social contribution rates and slight increase of the maximum base for paying social contributions towards moderately higher progressivity
- Keeping the commitment to **regular and non-discriminatory VAT refund to companies**

# Total expenditures – Functional distribution

**Expenditures of the State Budget by functional areas (% of total expenditures)**



\*Funds for payment of the government debt are also included in "Economic development and financial affairs"



# Current expenditures – Wages and goods and services

- Expenditures related to wages are projected at Denar 27.1 billion – increase by Denar 460 million, i.e. 1.7%
  - **Higher wages by 10% for all members of the army** as of January 2018 (harmonization with NATO standards)
- Expenditures for goods and services amounting to Denar 17.2 billion - **lower by Denar 420 million, i.e. 2.4%**
  - Regular payment of liabilities of budget users
  - Funds provided for financing health-related programmes
  - Increased material costs in the Ministry of Defense (NATO standards), but...
  - **...reduction of other "goods and services" by Denar 650 million**, in line with the commitment to restrictive budget spending on less productive expenditures

# Current expenditures - Transfers

- Transfers are projected at Denar 134 billion (increase by Denar 6.6 billion, i.e. 5.2%):
  - Pensions amount to Denar 54 billion or by Denar 2.1 billion more compared to 2017 – including regular statutory indexation
  - Active employment policies are projected at Denar 988 million, **higher by Denar 100 million**
  - Unemployment benefits of Denar 950 million - increase by Denar 184 million for resolving the issue related of redundant workers of formerly bankrupt companies
  - Subsidies and transfers amounting to Denar 17.3 billion
    - **Support for domestic enterprises amounting to Denar 1.1 billion – and continuing the support for foreign companies with Denar 970 million as state aid (total of Denar 2 billion)**
    - Funds provided for broadcasting fee, minimum wage, etc.
    - Agricultural subsidies together with rural development (part of "capital expenditures") amount to Denar 8.4 billion

# Current expenditures - Transfers

- Denar 28.2 billion are planned for health protection, i.e. **by Denar 1.1 billion more than 2017** - Funds are provided for **5% increase of wages for employees in the Public Health Institutions** starting with the September 2018 wage, as well as for regular financing of health services
- Transfers to Local Government Units of Denar 17.9 billion, i.e. **additional Denar 893 million compared to 2017 (5.2%)**
  - Financial strengthening of municipalities is provided for the **delegated competences** in the areas of education, culture and protection of children and elderly people
  - Funds are provided for **increasing the wages for the employees in primary and secondary education and kindergartens by 5% starting with the September 2018 wage**
  - **New employments in kindergartens** aimed at improving the child care

# Capital expenditures

- Capital expenditures are projected in the amount of **Denar 24.7 billion, i.e. increase by Denar 1.3 billion compared to 2017 (5.7% growth)**.
- This includes plans for intensification of all activities, e.g. road and railway infrastructure, utility and energy infrastructure, investments in the field of health, education and child protection, while the funds for defense and gasification are especially increased.

# Capital expenditures – Main projects

- Road and railway infrastructure – Denar 3.5 billion
  - Completion of the road section Demir Kapija - Smokvica
  - Reconstruction of the railway infrastructure along Corridor X
  - Intensification of the construction of the railway line along Corridor VIII
  - Reconstruction of railway section Bitola-Kremenica
  - Construction of road section Gradsko-Drenovo
- Utility and energy infrastructure – Denar 5.9 billion
  - National gas supply system
  - Water supply and sewerage in many inhabited areas
  - Wastewater treatment stations
  - Equal regional development
- Investments in TIDZ – Denar 431 million

# Capital expenditures – Main projects

- Education and sport – Denar 2.4 billion
  - Kindergartens
  - Primary and secondary schools and pupils' dormitories
  - Universities and student dormitories
  - Sport facilities
- Health - Denar 1.9 billion
  - Reconstruction of public health institutions
  - Reconstruction of clinical centers
  - Medical equipment
- Defense – Denar 1 billion
- Judiciary - Denar 531 million
- Public order and safety - Denar 917 million

# Key points of the 2018 Draft Budget

- Realistic macroeconomic and fiscal projections
- Gradual fiscal consolidation – lower budget deficit
- Defence budget increased to 1% of GDP – harmonization with NATO standards
- Gradual increase of wages in several key sectors
- Significantly increased funds for health protection
- Stable social protection of the population
- Gradual increase of the funds for equal regional development
- Strong support for domestic and foreign companies, as well as active employment policies
- Funds for broadcasting, minimum wage, agricultural subsidies, etc.
- Further reduction of less productive expenditures – decrease of the “goods and services” category
- Financial strengthening of municipalities
- Intensification of capital investments

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