



Weekly Briefing

Macedonia Economy briefing:

The New Budget and the Contradictions of SDSM's Economic Policy

Anastas Vangeli


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

Summary

In early November 2017, Macedonia's new government led by SDSM has proposed a new budget for the forthcoming year (2018). The public revenue is projected at 193,5 billion Denars (roughly 3,7 billion US dollars), a 4,7% increase from 2017; the public expenditures are projected at 211,7 billion Denars (roughly 4,04 billion USD), a 4,1% increase from 2017. The budget deficit of 18,2 billion Denars (roughly 350 million USD) is estimated to amount to 2,7% of the GDP (compared to 2,9% GDP in 2017). The Ministry of Finance estimates Macedonia's growth of the GDP in real terms to be 3,2% in 2018, compared to the less than 2% growth in 2017, and especially the alarming negative/stagnant growth rate in Q2 and Q3 in 2017.

The new budget has been proposed amidst heated debates over the course of which the government led by SDSM is going to take. In the past, one of the constant criticisms that SDSM made towards the VMRO-DPMNE government (2006-2017) has been that VMRO-DPMNE is irresponsibly increasing the state budget to record levels, and that it needs to take care of the budget deficit. The new budget SDSM has adopted for 2018, however, has elements of continuity and change – it is an increase from the highest budget to date that VMRO-DPMNE adopted in 2017, while at the same time exhibiting a tendency to reduce budget deficits, which according to some experts is not so much a demonstration of responsibility but rather an introduction of austerity mentality.

In general, the new budget is a product of the various tendencies and contradictions in which SDSM has emerged as a ruling party – it needs to maintain social peace but introduce reforms; it needs to provide conditions for development but also follow the Washington Consensus and the conditions set by the European Union; while it needs to provide compromise for the different factions within the party, and the various constituencies – all of which can have diverse orientations and requirements. Therefore the new budget is underlined by a “catch-all” economic ideology, making its realization a big unknown in the

time to come. The new budget, more than ever, raises the questions: 1) “who is the main voice in creating the government’s economic policy,” 2) “whose needs does this policy prioritize?” and 3) “what does it want to achieve.” A tentative answer elaborated in this article is: 1) “the business-friendly interests in the top ranks of the party, with some concessions towards the more social justice oriented elements of the party,” 2) “the interests of the various constituencies of SDSM that span across different classes, but not the majority of the people defined in a holistic way,” and 3) “to bring the country closer to the EU while minimizing shocks.” What the budget reveals, at the same time, is that SDSM is not yet willing to pursue a bolder ambitious, growth-oriented strategy.

Context

Macedonia even almost three decades after the fall of socialism is a small, poor, underdeveloped transitional economy, with high social inequality. Even though VMRO-DPMNE has managed to secure some economic growth, it was far from necessary in terms of Macedonia catching up with the rest of Europe. Aside from structural reasons, one particular cause of this has been bad management of public funds. Political elites have managed to establish tight control over the collection and allocation of public finances. Traditionally, the state has been the major employer, the major contractor, and the major advertiser in the Macedonian economy – but ruling elites – and in particular the VMRO-DPMNE-led government (2006-2017) have used this to their advantage, to fuel client-patron networks through public employments, award their cronies through state contracts, and punish their enemies through arbitrary use of regulatory institutions, all which was underlined by the goal to make profits and secure their position in power. To legitimize their rule, they pursued costly non-productive projects (such as the investment in statues and historic-looking buildings in Skopje), rather than projects that can secure long-term economic growth. All of this has led to VMRO-DPMNE consistently increasing the public expenditures (in reality they have remained within 31-33% of GDP) due to the

costliness of the political model, with a consistent budget deficit due to the inability to collect revenues.

The challenge for SDSM is to resist the temptation to take advantage of such model, and introduce comprehensive reforms, while maintaining growth and social peace. In this, they have to break with the rule of VMRO-DPMNE, whose rule was in general marred by grand corruption, inefficiency and growing inequality. However, they also need to maintain certain socio-economic stability that VMRO-DPMNE managed to bring - Macedonia indeed managed to retain some level of economic growth (which in post-crisis Europe made it an outlier), and relatively low living costs. The paradox is that VMRO-DPMNE did not do this through any economic genius, but rather by postponing painful economic measures (such as austerity) that are part of the Western economics textbooks and hegemonic models, steadily increasing the national debt, and “buying social peace” through what may have been unsustainable solutions – such as subsidies, etc. However, now SDSM, a hesitant follower (but not a challenger) of the Washington Consensus, is faced with the challenge to undertake unpopular measures such as the recent increase of the excise duty on diesel petrol of 3 Denars per liter – which goes against the expectations of the majority of their voters. Moreover, SDSM’s harsh criticism of VMRO-DPMNE’s economic policy in the past has also made a number of issues political, and created a climate where any failures are more visible than successes. While this has helped it gain legitimacy during its opposition years, it may also lead to its own weakening while being a ruling party.

SDSM’s Split Personality in Creating Economic Policy

Beneath the façade of social democracy, SDSM faces the challenge of having internal diversity of factions, constituencies, and coalition partners with various views on the economy and different material needs. Contrary to its nominal ideological mark, SDSM has traditionally been close to the economic elite; for instance, in the 1990s, it has supervised the rampant neoliberal

transition, which led to greying of the public goods, troublesome privatization of state assets, and a series of developments that led Macedonia to becoming one of the poorest countries in Europe. Today, while the party has changed, its foundations in big business remain the same: SDSM's top leader and the Prime Minister of Macedonia, Zoran Zaev, is a successful and very rich entrepreneur who later became politician, who at the same time presents himself as a leftist and according to insiders "promises everything to everyone." In direct negotiation with the large businesses, he appointed Kocho Angjushev, a tycoon who promotes business-friendly policies, as a Vice Prime Minister in charge of economic affairs. Many of the new policies have been said to serve Angjushev's business interests (e.g. recently, the government abolished the costs of importing a type of product that in Macedonia is imported only by Angjushev's company).

Nevertheless, in SDSM there are also progressive voices, such as the Minister of Finance, Dragan Tevdovski – a former professor who promotes left liberal textbook approach towards the economy, with emphasis on nominal redistribution of wealth. For instance, Tevdovski has pushed for reforms – however, these measures for now are either postponed, or done in a "cosmetic" (e.g. while talking of taxation reforms, no substantial changes have been done yet). The Minister of Labor and Social Policy, Mila Carovska, seems to also favor measures of social welfare. In addition, in the SDSM-led government there are other actors with their own agendas and preferences – such as a Minister of Economy; a Minister of Attracting Investment; a number of governmental agencies and bodies – who are run by people of different parties and proveniences. At the same time, SDSM's voters and supporters are comprised both by entrepreneurs, trade unions, relatively well-off citizens, as well as economically disenfranchised people, all of them which have different economic preferences. The diverse expectations were addressed by Zaev's catch-all political rhetoric, but will be increasingly hard to address them by concrete policies. SDSM while introducing some has postponed the majority of unpopular – but sooner or later, unavoidable measures such as solving the

“hole” in the pension scheme (with almost half of the expenditures for pensions being paid by the state itself, not by the pension funds).

Finally, the SDSM-led government has made the joining of the EU a priority in all its workings. This will result with a number of neoliberal measures, such as increase of living costs in many areas, and reduction of a lot of state expenditures. The unpopular measure of the increase of the excise duty on the diesel petrol was ascribed partially to the aspirations to join the EU. In the process of following the prescriptions and conditions of the EU, the will and interests of the SDSM top ranking figures will become of secondary importance.

Consequences

In terms of the size, Macedonia’s new budget – first under the new SDSM-led government – continues the trend of having a large budget, with significant costs foreseen for the salaries of the public administration. While SDSM has indeed promised increase in salaries for the public sector and guaranteed that it will not get rid of servants employed by VMRO-DPMNE, there are already doubts that the continued investment in the public administration – which is deemed bloated by both left-wing and right-wing perspectives – may be a continuation of the trend of using the potential of the state as employer in order to offer jobs and stability to large segments of the population. Traditionally, in Macedonia, public jobs have been seen as more attractive than jobs in the private sector, which has been an impediment to growth – and this may as well continue under SDSM. At the same time, controversial expenditures – such as those for the travel costs of the Parliament of the Republic – also keep increasing. SDSM, while in opposition has argued that such funds (who can reach relatively high amounts) are a source of corruption – however, while in power, it has kept on increasing them.

Moreover, the new budget by SDSM has raised the doubt if SDSM continues with the practice of using public funds to reward key allies and constituencies and to grease up political coalitions. For VMRO-DPMNE, this

was done with regards to agricultural workers and pensioners. SDSM has notably increased the funding for non-governmental organizations. While this resonates well with the liberal tendencies that are dominant in the party (who argue for a strong civil society), this is also seen as a move to reward key political allies. Namely, in the struggle against Gruevski and VMRO-DPMNE, SDSM at some point formed an unconventional coalition with a number of NGOs. Today, a number of its cadres in the new government – including top ranking officials – hail from these NGOs. Allocating more funds to them is officially presented as a measure to create new jobs in the civil society sector; however, doubts about the actual reasons for this remain intact.

The subventions for the NGOs are listed part of the capital investments in the budget; if one takes them out of the equation, as one prominent economist has pointed out, SDSM's government despite the increase of the budget has indeed significantly reduced the funding of activities that can boost economic growth. While SDSM has greatly spoken about the need of improving the infrastructure and channeling funds towards profitable and added value activities, it seems that it will not use its own money to do most of these things, but rather use foreign aid and loans.

Finally, SDSM faces the challenge in terms of collection of revenue. It seems that while speaking of more social welfare, one way to do this will be to reach into the pockets of the citizens and increase the living costs. The indirect taxation in the form of higher excise duty on the diesel fuel is one such example. At the same time, however, it seems that SDSM will be sooner or later faced with the unavailability further debt increase – a possibility that may not be necessarily bad, if the loaned funds are invested into productive economic activity with added value.