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# North Macedonia economy briefing: Macedonia's Budget Rebalancing Act and the Pivot to "Human Resources"

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# Macedonia’s Budget Rebalancing Act and the Pivot to “Human Resources”

## Introduction

*After an unfavorable turn of the political developments in the country (the emergence and escalation of the so called“Racket” affair, see earlier reports on Macedonia's Politics), and after a prolonged period of mediocre economic performance,  in Summer 2019 the government of the Republic of North Macedonia (hereinafter Macedonia) embraced a so called pivot to the real economy, not the least by making a pledge to initiate an ambitious EUR 5 billion investment cycle, which would include significant share of public financing, as well as establishment of joint private-public partnerships (see previous paper on Macedonia's Economy). Therefore, the initial impression among the media, the experts and the attentive public was that in order to implement the new, ambitious strategy aimed at boosting of economic growth in the country, the government would adjust its fiscal policy and prepare the financial system of the country for massive public expenditures and increase in capital flows. Thus, by promising such a dramatic shift, the government seemed not only ready to reverse the country's sluggish economic performance, but also to end its own sluggish economic policy record too: Macedonia in the last few years has struggled with meeting the targets for state investment into infrastructure and construction projects. Therefore, the new economic vision unveiled in Summer 2019 sounded like a radical change that would herald not only a new fiscal policy approach, but also a new stage in Macedonia's economic development. However, the 5 billion EUR spectacular announcement was not met with any concrete action and the hype was short-lived, and by the fall 2019, it was clear that the investment boom will have to be delayed. In fact, the changes to the national budget suggested a further decrease in the capital investment, and a further increase in the social transfers. How these events unveiled, will be explained in detail below.*

## Personnel changes

That a dramatic change in Macedonia's financial policy and economic development strategy was imminent become more than obvious once Dragan Tevdovski, a proponent of prudent redistribution was removed from the position of Minister of Finance during a broader process of replacement of top officials in May and June 2019. The motion to remove Tevdovski, and overall, to propose a government cabinet face lift, was a consequence of regressing public support for the government led by SDSM and DUI. Nevertheless, somewhat paradoxically, Tevdovski had been one of the ministers with highest approval rating, and therefore his removal has been a surprising one, triggering further dissatisfaction among the public, or at least among the supporters of the government. The removal of Tevdovski, thus, cannot be explained through the lens of shifting public opinion, but rather, as a power move by Prime Minister Zoran Zaev, motivated by his immediate economic programmatic (re)orientation. The belief has been that Zaev had been dissatisfied with the cautious and constrained, revenue-oriented approach demonstrated by Tevdovski, and wanted a Ministry of Finance that would instead promptly unleash the economic potential of the country.

Zaev's proposal has been that he himself would replace Tevdovski as acting Minister of Finance, in order to secure the fulfillment of his ambitious economic plans; nevertheless, this proposal was deemed unconstitutional and was quickly botched (see earlier papers on Macedonia's Politics). This had seemingly halted Zaev's "pivot to the real economy" during the summer of 2019. After a prolonged period of time during which the position was vacant, in August 2019, the Government appointed a new Minister of Finance recruited from the private sector, Ms. Nina Angelovska. Born in 1988, Angelovska had made a name for herself as a founder of Gruper, a Macedonian e-commerce company, a knock-off of the globally renowned Groupon. She served as a President of the Macedonian e-Commerce Association, and has become known internationally as a successful young entrepreneur. However, the appointment of Angelovska came as a surprise given her lack of experience in government. The political rumor mill produced a number of speculations about the logic of her appointment, most of which converged around the hypothesis that Angelovska would be heavily subordinated to Zaev's will and have no real authority over the country's finances. Little was known about her policy inclinations: she has never been politically active, but has been vocal proponent of pro-business policies and opponent of the tax reforms and redistribution policies heralded by Tevdovski, whose main legacy was the re-introduction of the progressive taxation system (albeit in a less radical form than he originally desired). From the brief introduction to the public in October 2019, it became clear that Angelovska would pursue a course that may reverse much of what was done under Tevdovski's reign. By the end of October 2019, there were intense speculations that in fact Angelovska may proceed with temporarily suspending some of the signature policies initiated by Tevdovski.

The appointment of Angelvska as a pro-business Minister of Finance has thus added fuel to the internal contradictions in SDSM with regards to its economic policy, as the party has been already torn between its pro-welfare wing (led by Tevdovski and the Minister of Labor and Social Policy, Mila Carovska), and its pro-business wing (led by Vice Prime Minister in charge of economic affairs, the tycoon Kocho Angjushev), with Prime Minister Zaev as an in-between figure (a tycoon and a self-proclaimed leftist). With Angelovska, the balance seems to tip towards the pro-business wing.

**Budget**

In October 2019, the Macedonian Parliament voted for a revision of the national budget, which now amounts to 210.5 billion MKD in revenue (down from 210.8 billion), and 228.2 billion MKD in expenditures (down 228.5). The narrow reduction of the budget was primarily a result of the difficulty in meeting the revenue targets, as well as the difficulties in meeting the capital investment goals. However, the new budget failed to reflect the rhetoric deployed by Zaev during Summer 2019 – and more even so, directly contradicted the vision for a government-stimulated investment boom and the "pivot to the real economy."

The most noticeable aspect of the budget revisions were the substantial cuts in the funds allocated for capital investments, and the reallocation of substantial amounts to what the government calls "human resources" and social welfare. According to the joint statements made by Zaev and Angelovska, the budget rebalancing aimed to achieve more efficient outcomes of public expenditures, to achieve greater economic effects, to advance the spirit of prudent financial management, and to facilitate the transfer an ever greater amount of money from the government to the citizens and businesses. In particular, a significant amount of resources have been reallocated to the private sector in order to subsidize new employments and the welfare expenditures of new employees. The major beneficiaries of these funds have been private companies as well as self-employed individuals. Additionally, a particular focus of the government has been the increase in social aid, the support for children coming from poor families, social pensions, and other social welfare expenditures. In the official rhetoric, the shift in orientation, from "capital investments" to "human resources investments" is a reflection of the adjustments of the economic policy in times of widespread unemployment and poverty, a consequence of the long-term processes of post-socialist transition. It is also a policy that seemingly satisfies both the pro-business and the pro-welfare wings in the party – at the expense of the potential spike in capital investment.

Furthermore, the revision of the budget cannot be seen in isolation with the latest political developments in the country. Only a few days after the new budget was approved by the Parliament, Prime Minister Zaev announced early elections to take place in April 2020 that as a consequence of the failed bid to secure start of the EU accession talks (see reports on Politics). This makes the rest of 2019 and early 2020 “an election (fiscal) year,” meaning that the incumbents, ahead of elections, will tend to be overly generous with the public expenditures and boost the direct transfers to citizens and businesses. For the opposition and critics, this is often seen as corruption and “buying the vote;” nevertheless opposition voices are critical insofar they are not able to do the same. Once they are in power, they would not hesitate to engage in such practice.

Moreover, in practice, this type of economic policy making, a pivot to social transfers, welfare and “human resources” is a rather simple and straightforward way for governments ahead of elections to deal with financial and economic conundrums, and spark a short-term economic activity and growth. The pursuit of more complex and elaborate economic policies aimed at significant medium- and long-term effects may not be most effective on the short-term; and delivering on the short-term is what translates into increased public support. And there is no more efficient way to boost the economy on the short term than pumping money into it. Thus, with the money flowing (even more) into citizen's pockets in the aftermath of the budget revisions, SDSM hopes to create a momentum of short-term increase in employment, and boost the consumption, and hoping, should they win the early elections in 2020, to have a chance to build upon this momentum. It is only then that the long announced and now delayed major pivot to the real economy could hypothetically take place.