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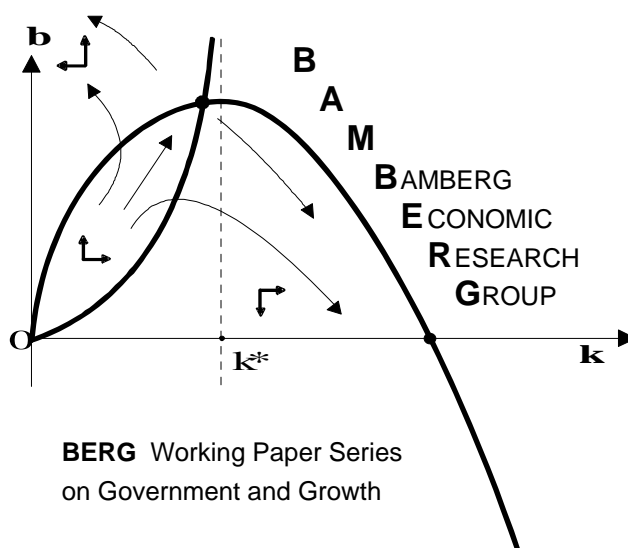
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Anti-Crisis Measures in the Republic of Macedonia and their Effects – Are they Sufficient?

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ANTI-CRISIS MEASURES IN THE REPUBLIC OF MACEDONIA AND THEIR EFFECTS – ARE THEY SUFFICIENT?

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Abstract

Macedonia's economy was not left behind by the global economic crisis as the country's macroeconomic policymakers had hoped! Certainly, an economy open at all and with a high degree of direct dependence on European and global economies in general should not be saved by the crisis in financial top and then the global economic. Transmission of negative effects but came a little late economic shocks in the periphery are often stronger than the epicenter. In these circumstances macroeconomic policymakers should be more proactive, coherent and dynamic design of the following measures and economic policies increasingly based on relevant research and analysis (decision making based on research and analysis). Therefore, this analysis aims to develop and study in detail the measures in terms of economy, Science and Technology of Macedonia in order to suggest a more effective policy in accordance with business cycles, always comparing the economic measures in other states with which the country has advanced reports on economic but referring to specific local economic conditions. Accordingly the specific activities recommended for further action.

Keywords: Financial Crisis, Anti-crisis Measures, Cyclic Regulated Fiscal Policy, Budget Deficit and Public Debt.

JEL Classification: G28, H30, H60, H70

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1 Time distance of economical projections as a basis for economic measures, mainly during the global economic crisis – case study on the Republic of Macedonia

The World economic crisis – identified at the beginning as a financial crisis, about which there are different opinions for the time when they arose, not only that it still exists but according to numerous economic scientists and analysts it will exist longer than it was preliminary estimated. Due to this, we consider that there is a necessity of more fundamental analysis and studies of the designed governmental anti-crisis measures with particular emphasis on the Republic of Macedonia, having in mind the specifics of a small and rather open (liberal) economy.

“A big crisis is threatening the country. During the following months and years the United States of America will come up against the biggest flop in their economic history – one strike from the oil, one rapid fall of the consumer’s confidence and at the end a big recession. Owners of houses under mortgage, owners of the last insurance policies and at the end the financial system, will collapse. Those events can mutilate big and protected funds, investment banks and the other mega financial institutions such as Fannie Mae and Freddie Mac”² These were words of the world renowned economist Nouriel Roubini stated on 7th of September 2006 in front of an Assembly of economists and representatives of International Monetary Fund -IMF that were sceptical at the beginning and laughed on the estimations that Roubini gave. Perhaps, “they were right “when they laughed because at that time in the USA, unemployment and inflation were at low levels – within the frames of the anticipated and the economic growth was at a sustainable rate apart from the increase of oil prices and flexibility on the market of mortgage loans.

Afterwards many economic analysts identified the first signs of the occurrence of the financial crisis in the USA since the first half of 2007, many economic researches, that are becoming more evident these days, state that real causes and factors that caused the crisis, are from the past. The BBC publisher Hugh Pym and the economic analyst of Financial Times and Observer Nick Kochan, in their economic review of the financial crisis,³ in “investigation” of the crisis’ roots among other state „... in 1992 the USA Congress passed the laws with which it was asked from the government “to get back” (stimulate) providers of the mortgages Fannie Mae and Freddie Mac in order to develop more sub-primary crediting in order Americans with the low income to be priority of the market „.....,(end of

² Mihm, S. (2006, September 7). Dr. Doom. The New York Times. Retrieved December 25, 2009, from <http://www.nytimes.com/2008/08/17/magazine/17pessimist-t.html>

³ Pym, H. and Kochan, N. (2008) What Happened? London: Old Street Publishing, p. 6. .

quote). Since then, rightly, the Nobel Prize winner for economy Joseph Stiglitz says that “the crisis is exported from USA to the whole world”.

Western Europe and above all Great Britain at the beginning of 2008, started seriously to “reshape” its current economic politics and the same was followed by many other countries from South-East Europe - SEE.

How did the other governments in the region react? In October 2008, the Government of the Republic of Serbia made revised estimations for 2009, inter alia about the projected growth of GDP from 6,5%, on the basis of which projection it projected its fiscal policy (Budget), but it was not a month – in November they realized that the crisis will have a full swing in their economy, they changed the growth rate for 3,5% and proportionally the projected fiscal policy – Budget for 2009⁴. Similar projections also had the other countries in the region.

The data in Table.1 illustrates the revised rates of growth of the world and regional economies⁵:

Table 1: Rates of growth as % of the change of GDP

	Realization 2007	Estimation 2008	Projection 2009
World economy	5,0	3,7	2,2
Developed countries	2,6	1,4	-0,3
USA	2,0	1,4	-0,7
EU	3,1	1,5	-0,2
Japan	2,1	0,5	-0,2
Countries in development	8,0	6,6	5,1
China	11,9	9,7	8,5
Russia	8,1	6,8	3,5
Central and Eastern Europe	5,7	4,2	2,5
Serbia	7,1	6,0	3,5
Croatia	5,6	3,5	3,0
Bulgaria	6,2	6,5	4,5
R. Macedonia	5,1	5,3	5,5

Source: IMF, WORLD ECONOMIC OUTLOOK, NOVEMBER 2008

The analysis of the first quarter of this year shows larger decrease in comparison of some optimistic economic projections. These analysis show a decrease of the growth of the World economy for 3, 2% whereas projections of the whole 2009 show decrease of the global economic activity from -0, 5% to -1% whereas its revival is expected to be during 2010⁶.

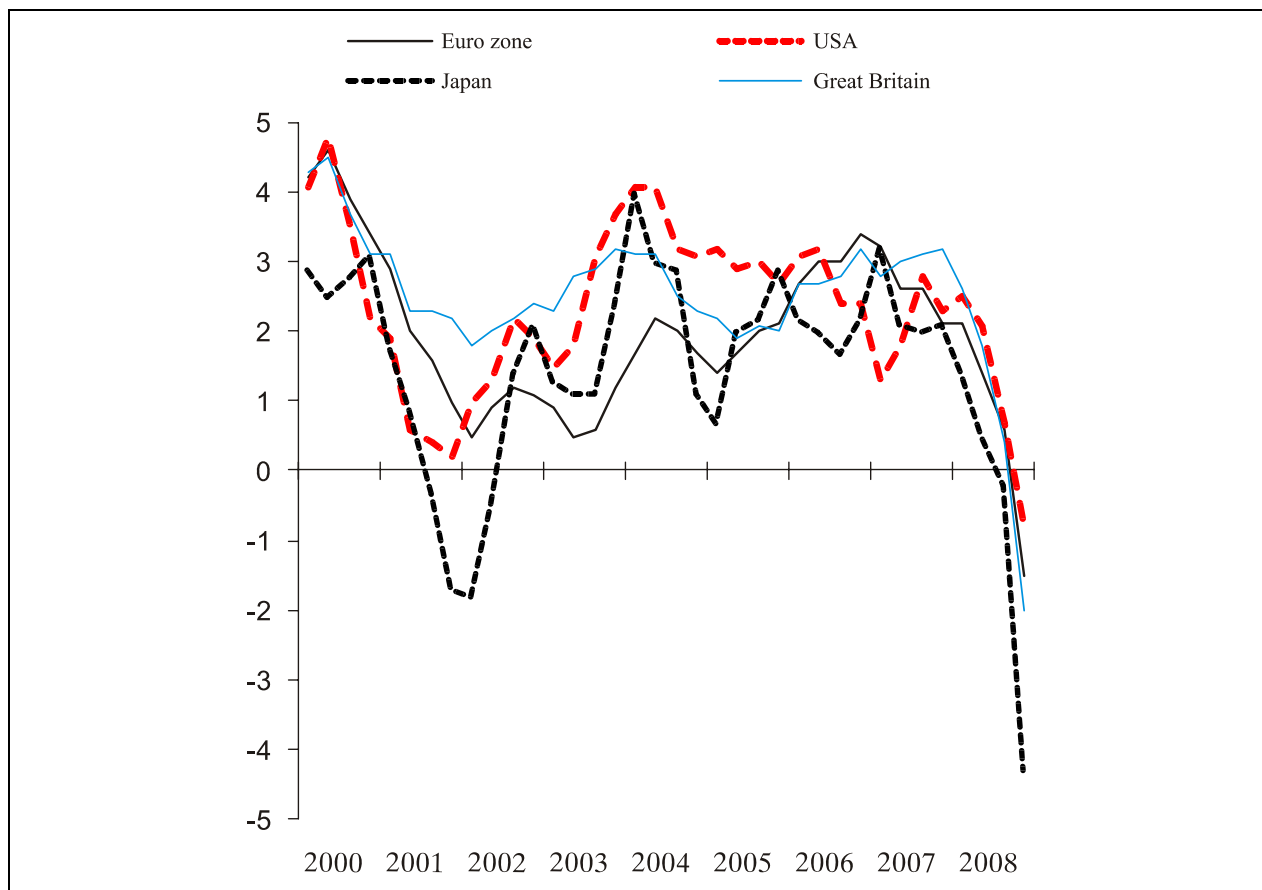
⁴ See: Memorandum of Budget and Economical Fiscal Policy for 2009 with Projections for 2010 and 2011.

⁵ Data for Regional Economies (including RM) - Economic Commission - Economic Projections, November 2008, Brussels.

⁶ National Bank of Republic of Macedonia. (April 2009). Macroeconomic researches: Quarterly Report.

In the most developed world economies a bigger decrease of GDP during 2009 (-3,3%) is expected, whereas in the economies with the high intensity of growth is estimated an “aggressive” decrease of intensity and projections calculate a growth only 2%, as a result of non-functioning of the financial global system⁷, as it is shown graphically below:

Figure 1: *Real GDP Growth in advanced industrialized Economies (annual percentage change; quarterly data)*

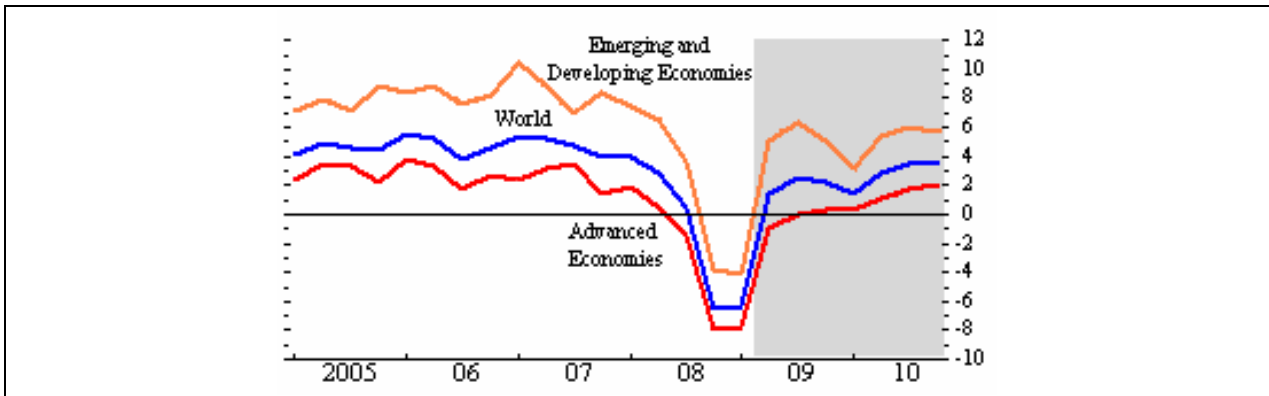


Source: NATIONAL BANK OF REPUBLIC OF MACEDONIA, APRIL 2009

IMF Projections during 2009 have changed depending on the current trends of the world economy and in the last projections they are more optimistic since some developed economies in the last months show signs of revival. In the last edition of IMF for Europe⁸ the negative economic growth for R. Macedonia from 2, 5% is projected whereas for 2010 the positive growth of GDP is 2%. The following graphic copies the projections of the global economy separated in groups of the countries as follows:

⁷ Ibid.

⁸ IMF Regional Economic Outlook-World Economic and Financial Surveys, Europe Securing Recovery, October 2009. Retrieved September 21, 2009, from <http://www.imf.org/external/pubs/ft/reo/2009/EUR/eng/ereo1009.htm>

Figure 2: *Global GDP Growth (Percent, quarter-over-quarter, annualized)*

Source: IMF STAFF ESTIMATES, 2009

The data above (in the previous table) show that R. Macedonia not only that entered with its macroeconomic projections in 2009 with “irrational enthusiasm”, (Alan Greenspan) but “existed” too long on them not wanting to recognize the reality of the impact of the global economic crisis that was evident by the “outward observers” of the states during the first quarter of the year.

The Macedonian Ministry of Finance through the Macroeconomic Policy Department , in November 2008 prepared and submitted to the competent Commissions of the Assembly of R. Macedonia, information⁹ of the effects on the global financial crisis on the Macedonian financial system and on the real economy in order to undertake appropriate measures for over-passing the eventual unfavourable states towards the Macedonian economy in which the basic parameters for expansive fiscal planning in 2009 were posed without taking into account the real economic power of the country after the influence of the crisis on the real sector of economy.

During November 2008, the Analysis of the Draft Budget for 2009 was done and the presentation and debate was organized with all interested parties from the prism of central budget where all “irrational expectations” of the budget projections were categorically and explicitly pointed out , by the incomes and expenditures, specifically in the coming election months of the year. The time quickly certified the analysis of experts against fiscal governmental “enthusiasts”¹⁰. At the beginning of 2009 from the Foundation –Memorial Center Nikola Kljusev a round table debate was organised. The topic of the debate was “Republic of Macedonia and the World Economic Crisis” and on that debate the ambitious fiscal projections of the Government were pointed and high fiscal risk of the Government that will shortly have consequences. A few months later the states were certified to a high extent of

⁹ Ministry of Finance – Macroeconomic Policy Department, Information of the effects of the global financial crisis on the Macedonian financial system and on the real economy, November 2009 Skopje

¹⁰ Bexheti, A. (2008). Functional analysys of the Draft –Budget for 2009, Skopje: FOSIM.

preciseness of the pointed projections given by the experts (above 200 million Euros higher projections, out of which 175 million Euros were corrected at the first rebalance of the budget).¹¹

Apart from the domestic expert, public and other relevant institutions pointed on time that the projections were too ambitious as it is stated also in the Report for the country (Republic of Macedonia)¹² about the doubtfulness of these projections that can lead to delusion at the economic agents in the country. The IMF and European Bank for Reconstruction and Development (EBRD) at the projections of the country for 2009 were even more sceptical in comparison to the stated report. In the regular Report of IMF for the country¹³ the risk of the “growing budget deficit” is implicitly pointed, that it can generate additional macroeconomic pressures” in the country.

Beside this, in Republic of Macedonia, after two years when “developed countries” have turned on their alarms for the coming of the biggest crisis after the Great Economic Depression from the thirties, competent institutions wanted to show this situation as “a comparative advantage” and “chance” for attracting all investments that would run from the developed and will be directed to the less developed and “unavailable” markets for crisis, among which is the R. Macedonia. Several months later it was seen that this naivety and illusion would not last because the first consequences of the crisis were evident at the end of 2008. Certain authors interpret this tendency as a consequence of “the advantage of the economic backwardness” of the country.¹⁴ Beside this and apart from all suggestions that were given by the numerous economic experts, competent institutions in the light of their irrational optimism “designed and brought” Draft-Budget and Macroeconomic Projections. The intensity of the worsening of the state of the Macedonian economy (and some other economies in the region) was very high and forced authorities to “recognize” the reality and to redraw “cocktail measures” with which they will oppose the crisis that seriously metastasized great number of branches of Macedonian economy. Hence there is a great need and necessity for deeper analysis of the current state and applied measures for alleviation of the state and commencement of the “economic revival”.

The lesson of this retrospective suggests that there is a need of timely and real projections of the state – especially during the global crisis that was evident for

¹¹ Foundation – Memorial Center “Nikola Kljusev”. (2009) “Republic of Macedonia and the World Economic Crisis”. Skopje: p. 38-42,.

¹² Country Report Macedonia, Economic Intelligence Unit. (2008) London, pg.7.

¹³ IMF Country Report No.09/XX, Former Yugoslav Republic of Macedonia: Selected Issues, pg. 11 February 2009

¹⁴ See: Shukarov, M. (2009). World Economic Crisis and Challenges for the Macedonian Economy. Skopje.

more than a year. It is better to recognize the truth even though it is unfavourable, than to hope that it will not attack us. Usually the global crisis attacks at the periphery of the strike where it is the strongest and it is difficult to do the reparation.

2 Cohesion and synergy of economic policy and the function of the balance of markets and economic cycles

Generally, economies are not linear phenomena. In the middle and on the long term national economies are cyclic, the same as business cycles of every economic entity. In the long term the economies are growing but in the interims they note growth and decrease i.e. the permanent fluctuation of the economic activity of every national economy is noted. Economic theory recognizes and identifies different phases in the economic cycles but the most significant are two main phases-the lowest (recession phase-through) and the highest (expansion phase-peak).¹⁵ Even in the latest book of professor Fiti¹⁶ the newest theoretical achievements of the economic science for business cycles until nowadays are elaborated on a complex and fundamental way.

Proportionally to economic cycles, appropriate anti cyclical economic measures should be designed that will influence the alleviation and shortening of the period for decrease of national economy on one side and fastening and maintaining of the growth on the other side. This is fundamental objective of every national economy that can be realized with the optimal combination of different economic measures.

In the last two decades Macedonian economy notices typical cyclic development – with significant decreases in the initial years of transition (until 1995 it had negative growth) and on 1996 notices positive mild increase with the “record” of 4,6% in 2000 and in the following year this percentage “to melt” in the same negative rate of growth (-4,5% as a result of the war conflict in 2001). The rates of growth of Macedonian economy and countries of Central and Eastern Europe in the last decade are shown in the following table:

¹⁵ See: Fiti, T. (2008). *Economy*, Skopje: Faculty of Economics, p .329.

¹⁶ Fiti, T. “Phenomenology of Economic Crisis”, UKIM, Skopje 2009

Table 2: Rates of growth in Macedonian and countries of Central and Eastern Europe

	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
% of real GDP (RM)	4,5	-4,5	0,9	2,8	4,1	4,1	4,0	5,9	4,9	-0,6
Average (CEE)	--	--	--	--	--	6,0	6,6	5,4	2,9	-3,7***

Source: MINISTRY OF FINANCE OF RM, 2009 AND IMF-WORD ECONOMIC OUTLOOK, 2009

*ESTIMATED DATA

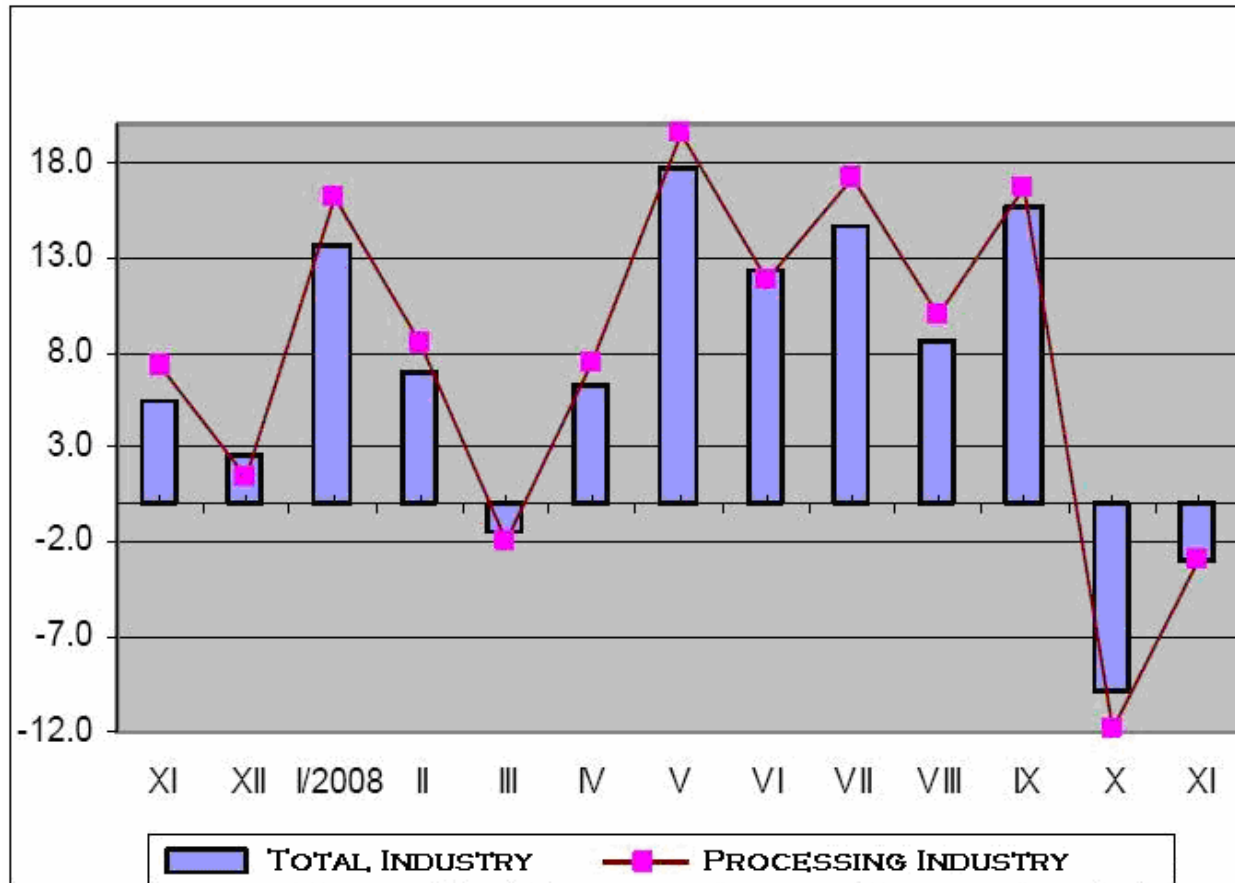
**LAST PROJECTION-AUGUST 2009, AND

***TAKEN FROM IMF (APRIL 2009)

The average economic growth of Macedonian economy for two decades (1988-2007) is not significant (about 1, 2%- according to some data in 1985 GDP per capita in R.M was 2.210 \$ whereas the same in 2007 was only 2.646 \$ or have grown only for 20%¹⁷) and represents the lowest rate in the region after Kosovo, since Monte Negro and Bosnia and Herzegovina were on a better position. The reasons are complex and there is not enough space to elaborate them here. The aim is to focus on the cohesion of the economic measures against global economic crisis with special emphasis on their analysis in the case of Macedonian economy.

In the period when the economic policies for 2009 were projected, current economic indicators pointed out the seriousness of the impact of the global financial crisis toward the real sector of the Macedonian economy (above all in industry). In the fourth quarter of the year, in relation to the previous, GDP decreased almost three fold (from about 6% in the previous three quarters to 2% in the last quarter). This was a sufficient signal that Macedonian economy and all other economies will be seriously challenged, above all as a result of decrease of exports and investments.

¹⁷ www.australianmacedonianweekly.com/edition

Figure 3: Indices of Industrial Production m/m-12

Source: SSO, JANUARY 2009

According to one qualitative study¹⁸ made with companies in the “Polog” region, during November 2008 the economic state is estimated as unfavourable in comparison to the previous period. The usage of capacities of respondent companies in November 2008 in relation to the third quarter is decreased for 60,2% as a result of the decreased external demand (decreased export) for 13,1% and internal demand for 17,4%.

One year period has passed since we entered in the process of negative economic growth (from October 2008) and until today we didn't succeed in synergic and cohesive manner to coordinate the basic economic policies in the country - fiscal with monetary. Whereas the government from the beginning is positioned in the paradigm of the expansive fiscal policy in order to “compensate”¹⁹ part of the demand of goods and services of Macedonian companies in export. Through the projected budget deficit from 2,8% from GDP the Government was determined to incite the public consumption, above all through the public investments in the sphere of construction. This position challenged monetary policy (in the case of

¹⁸ Damishia, B. (2009). “Global Financial Crisis and Macedonian Economy”, Tetovo (te specifikoht nese eshte liber ose artikull)

¹⁹ See: Stavrevski, Z. (2009). “RM and the World Economic Crisis”. Skopje. p.17

National Bank of the Republic of Macedonia) to take care for the stability of prices (low inflation) in order to preserve macroeconomic stability of the country. Two competent institutions for the most vital economic policies (fiscal and monetary) did not succeed to be coordinated but on contrary with its current policies were diametrically contrary positioned in that prices of the causal-consecutive behavior that generate negative effects from that non-coordination.

No matter “who has started this matter first”, in this discrepant behavior the deficit of the institutional capacity for creation of functional market economy is copied as a basic precondition for stable and sustainable economic growth. At the first dispute for the Draft Budget of RM at the Assembly Commission for economic issues several conclusions were brought that were submitted to the Government of RM, Ministry of Finance, Ministry of Economy and NBRM, in which among other things point 5 states: “ The commission considers that it is necessary NBRM to continue with measures that have been undertaken until now, but also to undertake activities for decreasing interest rates of the bank loans, for enterprises that are using loans for investments , and also to decrease interest rates of commercial banks of the already approved loans”²⁰. From this point the situation can be clearly copied in which the most vital institutions for the economic policies in the country “are in a difficult spot”.

The positions went even “further” than “ bickering” from one side to another went to the extent that communication for „harmonization“ of the economic measures are realized in the distance of several thousands kilometers – from Washington (where it was participated in the regular assemblies of IMF and SB), “the government communicated” with NBRM.

The trend of increased deficit of the paid balance of the country forced NBRM “tighten“ even more the monetary policy through the basic rate of interest and increase of the compulsory reserves of the commercial banks. When basic rate of interest of NBRM reached 7% commercial loans were placed with the average rates of interest from 9-9,5%. In the conditions of significantly decreased incomes in the central budget, the Ministry of Finance on behalf of the Government of Republic of Macedonia announced the selling of state bonds on the “record” annual rate from 9% that forced NBRM to react with increase of the basic rate of interest of the treasury bills from 7% to 9,1%. This ”overrun” was “very strong” and forced the government to stop with “the continuing competition” in this process but this enormously increased rates of interest of the loan negotiations toward economy (in average from 11-13%) and with higher dynamism of negotiations for consumer

²⁰ Assembly of RM, Commission for Economic Issues nr. 20-5036/2, Conclusions 5, 19 November 2008 Skopje.

loans of citizens (in average from 13-15%). It lead to decrease of the consumption (negative trend from -0,5%) and investments (negative trend from -20,8%) in the country in relation to the same period last year, that apart from the export are main factors that determine the economic growth of Macedonian economy.²¹

This unambiguously leads to the statement that non-coordinated economic policies which are result of the shortage of institutional capacity of the institutions and a shortage of the management capacity of cohesion as a precondition for synergetic economic measures could hinder already hard economic states that were incited as an impact of the global economic crisis. Today, when the world is giving tremendous efforts (G-20 in London and Pittsburgh) in a global economy to coordinate and harmonize economic policies of the most powerful economies through national governments of those countries, in order to alleviate negative effects in the free movement of capital and other resources we should not even mention the need of a big coordination of the economic measures within a national economy.

3 Analysis and critical review of the anti-crisis measures in the Republic of Macedonia

Beside the fact that in developed market economies the crisis started in the financial sector in the middle of 2007, a long time ago some concerned institutions announced it, above all “Financial Sector Assessment Program”²² warned financial sectors of separate countries “to take care of the high level of lending, above all for bad clients”. Basic reason for its appearance is seen in the underperformance of three most important pillars of financial markets –Regulatory, Supervisory and Rating Agencies. As consequences today the G-20 takes care for consolidation of these institutions. In the last recently made relevant economic analysis it is said that “the consumers’ confidence is the lowest in the last 40 years”.²³

Having in mind that the financial market in R. Macedonia and of the regional countries are not sufficiently developed and are not significantly functioning with secondary financial instruments, the financial crisis did not directly affect this sector but through the decline of real economy this sector is indirectly challenged.

Taking cognizance of the structure of Macedonian economy and its dependence from the absorption of the foreign markets of our products on a relative low level of competition of our products against tendency of decreased stock prices for basic

²¹ SIS- National Accounts, GDP – Announcement. nr. 3.1.9.05 from 18.09.2009, Skopje.

²² FSAP-Financial Sector Assesment Program among others work under the program seeks to identify the strengths and vulnerabilities of country’s financial system.

²³ www.ft.com/econforum

products, global economic crisis attacked real sector the most. In the last quarter of 2008 the first signals of the negative impact of the global economic crisis were felt. For this reason during November 2008, the Government brought the “package of anti-crisis measures”²⁴-composed of ten measures in financial (nominal) value of about 20 billion MKD. These measures are explicitly given in this program:

- 1) Law on writing off interest due liabilities on grounds of taxes and contributions for mandatory insurance social short procedure was adopted

With this Law, all due liabilities of companies on basis of medical insurance along with the interests matured till 31.12.2008 are wrote off in the following 4 years , until 31.12.2012 and in this period the interest is not calculated. If in this four year period, companies and insured regularly pay the current obligations, the main debt and interest that remained are completely written off after the expiry on 31.12.2012.

The aim of this measure is to alleviate work conditions of the insured, i.e. employers that have accrued obligations and interests on the basis of medical insurance and to start with the regular servicing of the current obligations.

The expected effect²⁵ of this measure is not only “buying time” by the “bad” tax payers for four years and then to follow the writing off (and “economically old-fashioned”) demands.

- 2) The Law on writing off of interest due liabilities on grounds of taxes and contributions for mandatory insurance social short procedure

This Law anticipates writing off of all calculated unpaid interests on the grounds of public taxes that are due to 31.12.2008. All companies- tax payers that have unpaid interests on the grounds of personal tax on income, tax on profit, VAT, Tax on estate and contributions for retirement insurance, have the possibility to realize their right of writing off the interests under condition to pay the main debt.

Unless they pay the main debt until 30th of April 2009, the interest will be completely written off 100%. If the main debt is going to be paid in the period from 1st of May until 31 of August, the interest will be written off in amount of 75%, and with the payment of the main debt in the period from 1st of September till 31st of December the interest will be written off in amount of 50%.

The expected effect of this measure will be neglecting and prolongation of the current obligations because of the partial paying of the “deposited” obligations in

²⁴ There is no official announcement of “this package” except from internal governmental documents that the author comes up with after many efforts.

²⁵ The expected effects are author’s estimations – above all on the basis of empirical experience with similar measures in the past and knowledge of the culture and mentality of thinkikng of tax payers on the grounds of public taxes.

order to realize the given privilege – writing off the obligations on the grounds of interest.²⁶

The representative of the Government²⁷ in a scientific debate on the occasion of “the successfulness” of this measure stated: „Regarding the fact that there were different experts’ opinions related (alluding on us) I would like to announce an information. Today ended the application period for companies for payment of the due capital on the condition to write them off the interests and we have 2.807 requests - companies! The total amount of demands of the state on this ground is 165 million Euros as a capital and 60 million Euros interest. The assumption is that all those that submitted a request will do this and the capital of 165 million Euros will be charged but the interest of 60 million Euros will be written off”.

The effects of these measures, announced in September 2009 by the competent state organ (Public Revenue Office- PRO) were as follows²⁸:

- Cumulatively, after the first and second period (from 01.01.-31.08.2009) is paid the amount (main debt and secondary public taxes) in amount of 926.477.728,50 denars (or about 15 million Euros) after the performed writing off of the interest in the amount of 728.206.015,00 denars (or about 12 million Euros). It is obvious that the results of this measure are far below projections by the competent – policy makers.

3) Law on amending the Law on Tax procedure

This Law enables the reprogramming of tax liabilities. All companies that have burdens in their operations, in order not to distract their operation will be enabled to pay on installments, at the most 36 installments. In order to get reprogram the enterprises must secure bank warranty in amount of 100% from the debt or mortgage in amount of 250% from the debt.

Measures 1 and 2 and partially 3 after definition are anti-reform ones - because in continuity of the former philosophy of similar measures was done before and the same provoked a motive to neglecting of the current obligations and not paying them – at least on the long term. Instead of motivation of regularity, neglecting for payment of current public taxes is “rewarded”. This should be a lesson not to repeat similar measures in future and to create equal ambience for all economic subjects in the state as a basic precondition for functional market economy.

4) Law on amending the Law on paid circulation

²⁶ The author made tis estimation at the public debate on 04.02.2009 organized by the Foundation – Memorial Center “Nikola Kljusev”.

²⁷ Stavrevski. *ibid.* p. 18.

²⁸ Written report from PRO- announced on 11.09.2009 on the web page of the institution.

Last year the Law on paid circulation was brought in which prohibition for payment of companies that have blocked transaction accounts was predicted, that should be applied from January 2009. But regarding the hinder conditions for operations of companies incited by the state of the economy in the world, the Government brought the decision to postpone the application of this prohibition for one year.

With this measure another transition period is given to the companies to adjust its operation with the Law on paid circulation.²⁹

5) Law – making demand of the Republic of Macedonia on the basis of public duty in a permanent stake in the companies OHIS, EMO, Tobacco Factory Prilep and Euro composites.

It is about companies that have enormous arrears accumulated several years ago and worsened liquidity. Considering that the State has majority participation in the management of these companies, and mainly liabilities are towards state institutions, before accessing to selling of the state's shares in that companies, the Government decided to turn requirements on the basis of taxes, contributions and other taxes in a permanent stakes.

With this decision the states in these companies will be rehabilitated and at the same time they will become attractive for selling to the interested investors that will continue their business activity. The objective of this measure is to attract strategic investors in these companies for permanent solution of their problems.³⁰

Measures 4 and 5 have charterer of postponement and deposition of problems rather than solutions. The option to “nationalize” part of the capital of non-profit enterprises (former unremunerative companies) and then to expect attracting strategic investors for them is absolutely unreal and non-market oriented. If the measures are economical then they should deal with the process of liquidation or rehabilitation on the market if they want to be consistent in that.

- 6) Taxation of profits only when it is allocated in dividend, following the example of Estonian model
- 7) Reducing of customs, with amendments to the Customs tariff rate
- 8) Two years prolongation of the payment of tax on interest of savings
- 9) Lower rates of individual farmers

Farmers who have annual income less than 300.000 denars (5.000 Euros) will be fully exempt from tax and those who have income between 300.000 and 1.300.000 will be reduced income tax for 80%. In other words, the farmer that has income

²⁹ These are estimations of the policy makers- i.e. measures

³⁰ Ibid

from 5.000 Euros will be tax exempt, and the farmers that have income of 20.000 Euros will pay income tax of 400 Euros.

10) Cancelling the costs for the New Year holidays

In direction of reduction of non-productive outcomes, all state institutions, funds, agencies, public enterprises and stock companies with the decision of the Government this year will give up the funds for teams, gifts associated with the New Year holidays. The remaining measures (6 to 10) do not have any significant influence on the economic behavior of the subjects because the economic effects of these measures are limited.

Consequently, due to the extremely limited economic effect of the already stated measures and due to the aggravating state during the period of time , the Macedonian Government in March 2009 passed “the other anti-crisis package of measures” called investment program of the Government of RM for the realization of strategic projects for the period 2009-2016, which includes various infrastructure projects in 8 districts and the summary is about 8 billion for a period of 8 years (2009-2016)³¹, and that is:

- Energy with over 30 strategic energy projects (mines, power plants, hydroelectric, gas plants, nuclear program, patch, wind, etc...) In summary, 3.8 billion Euros will be provided from the Budget of RM and its own funds from state energy companies and MEPSO ELEM (400 million) of credit debt (800 million) and concessions and public-private partnerships (2.6 billion);
- Transport infrastructure (road and rail), in a value of 3.8 billion Euros. In the road infrastructure the construction and rehabilitation of over 950 km. roads is planned and the summary of that is 2.6 billion Euros and rail infrastructure in a value of 1.2 billion Euros. The funds are envisaged to be provided from the budget of the Republic (600 million) of credit debt (800 million), investment-concessions (2.4 billion) and grants (27 million);
- Water supply and sanitation (water supply and communal infrastructure) for over 300,000 people in over 400 settlements totaling 100 million Euros of which 70 million Euros for water supply systems and 30 million for drainage systems. The funds are envisaged to be implemented by the multilateral creditors, including 50 million Euros from European Investment Bank, 20 million Euros from the World bank and 8,8 million Euros from KFW, and the remaining from other financial institutions. ,

³¹ www.vlada.mk, Author's researches and comments.

- Environment-the dominance of two major projects (Dojran lake and cascading walls of the Vardar River) in total financial value of 37.9 million Euros will be provided from the Budget of RM (7.4 million Euros) and the credit debt (30.5 million Euros);
- Construction of social housing over 1100 in summary 34 million Euros will be provided from the Budget of RM in the period 2009-2012;
- Construction of sports facilities in summary over 100 million Euros will be provided from the Budget of Republic of Macedonia and
- Education and culture- building a new University of Informatics and Technology in Ohrid (value -8 mil.euros) , construction of new student dormitory Aerodrom – Skopje (worth 5mil. Euros) construction of two secondary schools in Struga (in amount of 7 mil.euros) all funded from the Budget of the Republic and the construction of 93 schools throughout the Republic financed by the Public Investment Program -PIP model.

The second package of anti-crisis measures looks like list of wishes and is similar to the previous PIP in RM (PIP)³² rather than real program with really made studies and detection of real sources for their financing. Beside the fact that in R. Macedonia for five years formally is practiced “Medium-Term Budgeting Framework-MTBF”³³ only small number of countries in development and transition succeeded functional practicing of this fiscal instrument. Perhaps in a case of shortage of optimal institutional capacity, an easier alternative of “mid-term budget framework” for “R. Macedonia it represents preparation for multiyear estimation only for investments and more significant outcomes” it is said in the Report of IMF for the country in February 2009”³⁴. This kind of long-term investment programme is not sustainable without detailed implementation of the Cost Benefit Analysis Methods for a single project and on the grounds of those studies to make a selection of priorities for the capital projects.

In this mega-investment program dominate the sources of funding for concessions (two - thirds or more than 5 billion Euros) for which doesn't give the hope that it will happen neither current empire nor qualitative changes occurred in this circumstances (political, economic, integration, social, etc.). to hope that in the near

³² Author's estimations. From 1996 in the Republic of Macedonia the so-called т.н. „PIP-Public Investment Program, is systemized , and was not realized even once for more than one –quarter – regardless whether it is by the financial value or by the physical capacity of the investments. Separate projects, as it is for example the energetic transmission line “Vrutok-Bureli” even after 15 years the investment was not realized – and the investment doesn't cost more than 15 million euro!

³³ OECD & Ministria e financave pranë Qeverisë së R.Shqipërisë. (2004). Menaxhimi i shpenzimeve publike., Tiranë, p. 157.

³⁴ IMF Country Report No.09/XX. (2009). FYROM: Selected Issues, Washington: IMF, p. 14.

future it will really happen. A strong argument for this can serve prolonging the investment by the Turkish company, TAV two times one after another, through concessions PEAS Airports in Skopje and the multiple nullification and repetition of tenders for the concession of hydroelectric power stations (Cebren, Galishte, Boshkov Bridge.....etc) in Macedonia only because of lack of interest by strategic investors. What has been changed or will be changed in the near future for this miracle happen?

On the other side, other significant projected sources represent borrowing public debt (about 1.73 billion Euros) and budget funding (about 1,16 billion Euros)³⁵ - both sources represent fiscal component in conditions of limited fiscal space in R. Macedonia

In conditions of economic crisis and significant fiscal underperformance (above 25%) lower level of realized incomes for the period from 01.01-30.09.2009 in relation to the same period previous year) the possibility for fiscal expansion is limited with “duplication” of public debt for the following 8 years or with annual increase of above 150 million Euros of capital investments from the Budget of RM, apart from the regularly –planned public investments that are not realized more than 70% on the level of annually planned³⁶. The volume and structure of public incomes neither structure of public outcomes at the current state not to allow this kind of expansive fiscal policy, at least on a long term.

The economic cycles of Macedonian economy need cyclic “regulatory fiscal equilibrium”, where:

$$FB^*=PI^* - PO^*$$

Where:

FB*- Cyclic regulated fiscal balance

PI*- Cyclic regulated public incomes and

PO*- Cyclic regulated public outcomes

³⁵ Calculations by the author - according to the Investment program of the Government of RM- for the period 2009-2016

³⁶ Bexheti, A. et. al. “The Analysys of the Potential for Good Management in R. Macedonia“. Skopje: FOSIM. p. 91-97,

Public incomes and public outcomes should be regulated (projected) proportionally on the basis of the ratio of potential GDP (potential economy) and factual (actual) GDP that are determined by their flexibility, so as:

$$PI^*=API \times (GDP^*/GDP)^\alpha \text{ and } PI^*=APO \times (GDP^*/GDP)^\beta$$

API- Actual public incomes,

APO- Actual public outcomes,

GDP *- Potential GDP

GDP - Actual GDP

α - flexibility of public incomes

β - flexibility of public outcomes

On the basis of estimations provided by IMF (made on the basis of “Hodrick-Prescott Time Series Filtering Method”)³⁷ for 2009 cyclic regulated fiscal balance for R. Macedonia is as follows:

Table 3: *Cyclic regulated fiscal balance for R. Macedonia*

Description	2008	2009
Actual GDP (billion denars)	387,1	422,7
Potential GDP (-----,-----)	384,2	420,8
Difference (gap) of GDP (the percentage cyclical regulated GDP)	0,8	0,5
Budget balance (% of GDP)	-1,5	-3,0
Cyclical regulated fiscal balance (% of GDP)	-1,8	-3,2

Source: IMF-REPORT FOR THE COUNTRY, IMF OFFICERS, P.12, 2009

Cyclical behaviour of the fiscal balance of R. Macedonia, according to estimations of IMF shows that “*a positive fiscal impulse represents one regulated cyclical contraction*”³⁸. Precisely 2009 show that fiscal impacts through automatic fiscal stabilizers had negative reflection on the potential GDP whereas forced discretionary fiscal policies did not succeed to reimburse that because they have crowded the business. According to the same methodology projections for 2010 on the basis of effects of these policies are more optimistic because it is expected that the cyclical behaviour of the fiscal balance will generate **minimal but positive**

³⁷ Look at footnote 29

³⁸ See: IMF-Fiscal Policy Framework for Macedonia-Results from Cyclical Behavior of Fiscal Balances, September 2009, Skopje.

effect on the potential GDP (+0,7% from discretionary fiscal policies and -0,3% from automatic stabilizers =+0,4%).

4 Fiscal policies and Budget of the Republic of Macedonia in the recession period.

The debates of the active economic policies are old dilemmas in the contemporary macroeconomy. In the contemporary macroeconomic science there are like-minded people that agree that basic macroeconomic policies can influence, above all, in a short term in the aggregate demand and height of GDP and in employment. Representatives of neoclassical economic school do not agree with this (Nobel Prize winner R. Lukas and like-minded people) and they think that economic policies are not efficient. They developed -"The Policy In effectiveness Proposition"³⁹ and consider that the management with the aggregate demand is useless and they draw attention to the aggregate supply. Many other famous economists confess that there is expressed inefficiency in the economic policies and they recommend less active economic policies. But "the new Keynesian advocates" and previously "middle-of-the-road Keynesian advocates" are convinced that management with aggregate demand is important for the national economy.⁴⁰

The current economic crisis again confirmed the economic theories for the need of anti-cyclical management with aggregate demand and many countries, included the most developed ones (even the most liberal economies such as USA and Japan), area actively managing with the aggregate demand, above all through public capital investments in order to generate employment and greater economic activity.

After escalation of the global economic crisis and bringing of the "fiscal package" by the US Congress and then followed with other developed economies (G-8 Summit) and the last "fiscal infusion" of the US President Obama that is in amount of "800 billions US Dollars plus 350 billions US dollars as financial warranties" according to Michael Grunwald, we are almost returning to the Keynesian economy⁴¹.

President Obama will be the first democrat that does not comply with the standard and restrictive fiscal policies of "the Democratic Presidents" in the US from the period of President Truman (1947) till nowadays. President Regan (1983) brought

³⁹ Lukas R. & Sargent T. (1981). "Rational Expectation and Economic Practic,, New York: George Allen and Unwin. p. 361.

⁴⁰ See: Blanchard O. & Cohen D. (2002) *Macroeconomie*, Paris: Pearson Education; Gregory M. (2004) „Principles of Economics,, third edition, Harvard University.

⁴¹ Grunwald, M. (January 26, 2009), "How to Spent One Trillion Dollars,, Time, , Vol.173, No.4/2009 retrieved on June 14, from <http://www.time.com/time/politics/article/0,8599,1871769,00.html>

an “extraordinary act for creation of working positions” that then was in amount of 9 billion US dollars (today 19 billion dollars). After him the president “old” Bush continued with increase of public outcomes and public debt and in the full period of President Clinton the deficit is decreased –even in his second mandate , after four decades , USA for the first time entered the zone of budget surplus , and with that distinct decrease of public debt. At the beginning of 2009, the enormous growth of budget deficit from 8,3% from GDP continues and public debt of 81% from GDP.⁴² The expansion of the capital public investments according to “the anti-crisis package of measures” of the administration of President Obama has an aim to create (or to preserve-save) around 3.675.000 jobs at more than 14 sectors headed by the construction Sector (with 678.000 jobs)⁴³.

Nowadays you can randomly find an economist that contests State “interventions” for stabilization after the global economic crisis, that originated from the financial sector but in the last instance the real sector suffers the consequences. But this kind of behaviour of the most developed economies of the world lead by the USA can not be an alibi for the governments of small and limited economies “to imitate” the so called Laws of large numbers!

Recently, the issue of height and volume of public incomes in relation to the institutional capacity for “good management” is being imposed. Great number of studies in public finances lately state that: “once the public income will exceed 1/3 from GDP every marginal growing unit of public consumption will follow with low rate of economic growth in **the states with poor management** but this relation is not valid for the countries with good governance. High level of public incomes is risky when public institutions are weak”, says manager of the country at World Bank and co-publisher of the Report.⁴⁴ He continues further: “Public money is little when they are properly spent; deficits can become bigger when high taxes for financing of these outcomes are collected. This distorts business and employee’s decisions”⁴⁵

Fiscal studies in Eastern Europe and Central Asia prove that **with good management fiscal policies are inciters of the growth.**

“The biggest challenges of the bigger number of countries in Eastern Europe and Central Asia exist at the increase of effectiveness and efficiency of the public consumption” states Director of the sector of World Bank and co-publisher of the

⁴² Congressional Budget Office-2009 Projected Figures (which do not include Obama’s American Recovery and Reinvestment Plan numbers).

⁴³ Romer, Ch. & Bernstein J. (2009). The Job Impact of the American Recovery and Reinvestment Plan. http://otrans.3cdn.net/ee40602f9a7d8172b8_ozm6bt5oi.pdf

⁴⁴ World Bank, Release nr. 2007/463/ECA, Brussels, July 2, 2007.

⁴⁵ Look at footnote 3.

Report, Cheryl Gray⁴⁶. Furthermore she continues “This is very important for fastening the growth and dynamism of development with **conviction that population benefits from consumption in health, education, pensions and infrastructure**”.

Apart from the attitudes of these world relevant developmental institutions many researchers refer to their researches for “government’s effectiveness” in the public sector. Professor Adam Török⁴⁷ uses Robert Portes’s concept for governmental efficiency in which he states that “government efficiency is a more important criterion than size”⁴⁸. He simultaneously actualizes the dilemma for “Social welfare” or “Consumer welfare”.

Due to the expressed recession in the developed countries and decrease of industrial production in the first half from 2009 in the European countries in the average for about 20% - above all for the countries exporters of Macedonian products (Germany 19,3%, Italy 21,8%, Slovenia 22,3% etc.) and as a consequence the expressed negative rate of growth in these countries (Germany -7,1%, Slovenia -8,5%, Italy -6,5%, Austria -4,7%, Croatia -6,7%, Turkey -13,8%)⁴⁹ it was transferred on the effects of Macedonian export- above all industrial goods that influenced the overall economy and resulted in official recession of Macedonian economy for the first quarter -0,9% and the second quarter -1,4%.⁵⁰

During the first half of 2009 and beside the fact that the consequences of the economic crisis were already felt in R. Macedonia (and beyond the fact that the recession was afterwards announced) there was not enough “critical mass” of the interested parties (like business community and media through professional and academic debates) that would influence the economic policy makers in order to design more rational and productive regulated anticyclical fiscal policies that will have different effect on the potential GDP. During June 2009, when the paid balance of the country reached the most critical level in the last decade, the Delegation of the Mission of IMF represented with the highest rank in the last decade stayed in the country – Director of IMF for Europe (former Prime Minister of Poland MR. MAREK BELKA) which made efforts to encourage the Government to made an arrangement with IMF. In comparison to us⁵¹ for the macroeconomic policies against economic crisis and the need for engagement with IMF, Mr. Marek

⁴⁶ World Bank, Release nr. 2007/463/ECA, Brussels, July 2, 2007.

⁴⁷ Member of Hungarian Academy of Science and Member Fiscal Council of Hungarian.

⁴⁸ Presentation of A. Torok at 9-th EDS (European Doctoral Seminar), Budapest, September 2009

⁴⁹ http://www.finance.gov.mk/files/Rebalans_na_Buxetot_na_RM_za_2009-za_na_Sobranie_02.09.2009.pdf

⁵⁰ www.stat.gov.mk Announcement 3.1.9.05 од 18.09.2009.

⁵¹ Meeting of delegation of IMF Mission with N. Popovski, A. Bexheti, J. Manasievski and M. Nikolov on 12.06.2009 in Skopje

stated that “tomorrow may be too late for the IMF to change its relation with the country”.

During the second quarter, the Government brought “third package of anticrisis measures”⁵² that is consisted in the following areas:

- I. Budget rebalance of R. Macedonia,
- II. Measures for support of enterprises under the EIB credit and
- III. Other measures for support of enterprises.

In the area of the Budget rebalance the following measures were taken:

- Temporary ban on new employments in 2009 in public administration and public sector (except for employments in the Program EU NPAA in accordance to the obligations of the Framework Agreement);
- to postpone 10% wage increase of employees in public administration and public sector (which was predicted for October 2009, deferred costs on this basis 531 million denars);
- reduction rate for current expenditures in all budget users on average about 16% (saving 3.6 billion denars)
- prolongation of ban on procurement of furniture and equipment, vehicles and other unproductive expenditures of all budget users to 31.12.2009
- to reduce the number of official trips and significantly reduce the number of members of delegations to travel abroad (except the minister, usually + two members from the ministry for more members, prior to informing the government);
- with all budget users to reduce the cost of representation, advertising and sponsorships (which are not directly related to rendering of the planned and undertaken structural reforms);
- rigorous control of fees and other costs (for mobile phones, travel abroad ... etc) to members of management and supervisory boards of public companies, agencies, funds and others, public organizations and institutions;
- to prohibit payment of fees for commissions formed within the ministries, agencies, funds and other public organizations and institutions;
- 30 % reduction of the official cell phone expenditures for the public administration;
- to authorize the heads of public institutions to reduce the cost of representation;

⁵² Extract from the Minutes of the Meeting of Government on April 21, 2009- “Item: Information on the Third Package of Anti-crisis Measures”, Skopje.

- to control employments through employment agencies for temporary employment;
- to reduce the current and capital expenditures as well as bonuses to public companies, funds, agencies, institutions and stock companies in the dominant state ownership,
- to recommend reducing of expenditures for local administration in terms of teams, trips abroad and so on;
- to prolong part of the projects in the part of capital expenditures or to get new dynamics for their realization and payment;
- to provide funds for engaging 5,000 unemployed persons to perform public works for a period of six months as a social measure in conditions of economic crises;

All these measures over time were transformed into the rebalance of the budget for 2009 (two rebalances for 3-4 months), which, “interpreted” in fiscal morphology mean reduction of total public revenue 14,756,000 thousand denars (240 million Euros) and a reduction of total public expenditure for 15,203,000 thousand denars (247million Euros) and coordination of budget deficit with slightly reduction for 522,000 thousand denars (8.5 mil. Euros), which retained almost the same level - 2.8% of GDP

These fiscal measures are characterized with the following remarks:

- In almost all of these measures there is an expressed form of relativization of the same, through different variations- systematic and spontaneous, that usually in a shortage of fiscal culture and fiscal discipline, exceptions are turned into the rules of behavior. In any of them (some are on purpose underlined in brackets – as variation of the already announced announcements for employment, separate discretion rights of certain official to approve such abandons,...etc);
- the biggest part of fiscal measures for fiscal “saving” were forced due to the significant underperformance of public incomes (above all VAT and excise) and were not designed as anticyclical fiscal measures or “cyclical regulated budget balance” that would have positive impact on the economical cycle of Macedonian economy;
- delayed fiscal measures – at great number of measures undertaken fiscal obligation already exists and is difficult to return the budget users, especially during the fiscal year , more restrictive fiscal position which will lead to “fiscal regulation” of timing of accounting expression of expenditures (often in agreement with the lenders on the grounds of budgetary demand)⁵³ ,

⁵³ Bexheti, A. (2007). „Financat Publike,. Tetovë: UEJL. p. 344

-reducing with greater intensity of the already insufficient (structural) developmental component of the budget – capital expenditures are reduced over 18% (almost double reduction in comparison to the total expenditures)⁵⁴ something that is not recommended during the economic recession;

-social funds above all Health Fund, in condition of expansion of range of free health services (amendment of the Law on medical insurance expanded the range of about 40.000 insurers to use medical services without reimbursement) and in direction of reducing the rates for contributions, they could generate additional fiscal pressure and “breaking through” the budget deficit; and

-usually “tightening the belt” in the post-election period and in the second half was not proved to be real in the realization.

In the area of measures for credit support of enterprises –private sector, the Government provided budget line from the EIB in amount of 100 million Euros, on which is expected to be added 50-100 million Euros from commercial banks as co-financing of sustainable projects from the private sector.

This financial program mainly refers to:

-co-financing of credits for small and medium enterprises (to 250 employees) in amount of 50%;

-subvention of rates of interests;

-support of export; and

-maintenance of the existing number of employees and stimulation of new employments

For all stated purposes in the program the criteria and conditions are closely determined for sustainable projects on the basis of the projected aims of the program.

In terms of continuous trend of increases of price of “financial capital” of internal capital market these measures would represent a good basis for stabilizing the price of money and incitement to return to the previous level (from a year ago). However, this program represents only the insufficient amount that would challenge the competition of the credit placements of domestic commercial banks in order to achieve the effect of reducing of interest margins of investment loans in the country.

In the third area- measures for support of enterprises are encompassed:

⁵⁴ www.finance.gov.mk Proposal for Amendment of Budget of R. Macedonia for 2009, p.10

-measures to simplify the custom operations as a second phase of the Project Regulatory Guillotine , 54 new measures are proposed to simplify the custom operations and speed up the flow of goods through the border ;

-measures proposed by the Chambers of Commerce to regulate claims and liabilities between companies and state on all grounds (such as 10 measures of consultations with chambers of commerce), which meet all state administration bodies and are recommended for public companies and companies in the state ownership with majority state capital to pay its obligations no longer than 45 days; and

-several measures of the transport sector to support carriers (proposed by Makamtrans Association of Independent trade Unions of Transporters) ⁵⁵

In the measures of the second area there are also responsibilities that are atypical and, even with the decision of government require respect, of “the legal deadline for return of VAT, or, full realization of infrastructure projects envisaged budget for 2009”, as well as, “full payment of agricultural subsidies provided in the budget for 2009”. Legal obligations for repaying the VAT and implementation of the budget (which is also “Law “) with the decision of government can not be “incited” to be realized with the governmental decision – this only confirms endogenous and structural shortage of institutional capacity for realization and implementation of laws adopted by the higher authority of the government.

5 Instead of “Fourth package of anti-crisis measures...”

Recommendations to the economic policy makers in the Republic of Macedonia are the following:

1. Permanently to follow the economic situation - with sustainable analysis – cohesively with coordination and synergy to bring measures on the basis of information , analysis and research of all relevant institutions (the Government, NBRM, State Institute of Statistics, etc.) and on the basis of projected sustainable objectives of the economic policy.
2. Late reaction due to the political opportunity will harm political structures. This was proved with the current policies in 2009.
3. Not to mix up the measures- there is difference between intervention measures and structural and reform measures. Supporting the enterprises to cope with the current obligations towards the State – instead of motivation of

⁵⁵ See: Information for “Third Package Anti-Crisis measures” p. 3-11.

regularity the dereliction for payment of taxes is “awarded”. All these in principle are antireform measures.

4. The economic cycles of Macedonian economy need cyclical “regulated fiscal balance” explicitly based on the fiscal possibilities of the country. Mega investment program for realization of strategic projects “8 billions for 8 years” is not in line with the fiscal space in R. Macedonia.
5. In the shortage of capacity for implementation of “mid-term budget framework” at least to practice the multiyear estimation” only for investments and more significant expenditures”. Capital strategic investments can not be selected without consistent application of Cost and Benefit Analysis.
6. Until the consolidation of economy – without exceptions of determination to “take off” from the budget all expenditures that are not productive for Macedonian economy and that can be postponed to “better times” and are exerting pressure on the paid balance of the country. There are still too many.
7. To re-examine until is too late, without need the firm attitude “against the engagement with IMF”- we will dearly pay the loans from the commercial capital market. The industry is in need of at least three times more financial capital than the “EIB Program”. We will spend Eurobonds – what is next?

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